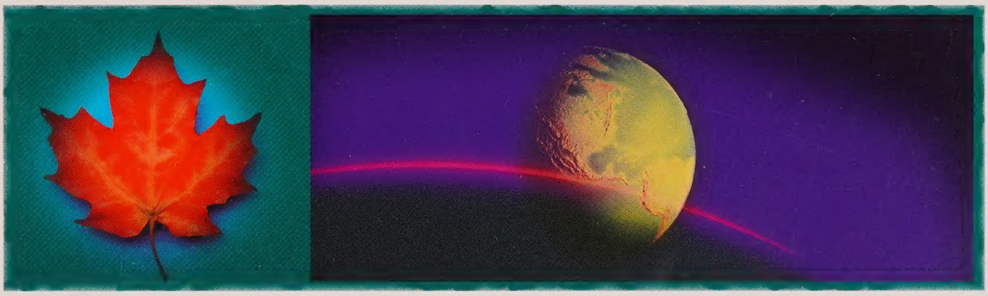
EXPORT DEVELOPMENT CORPORATION

1997 ANNUAL REPORT

TAKING CANADA TO THE WORLD

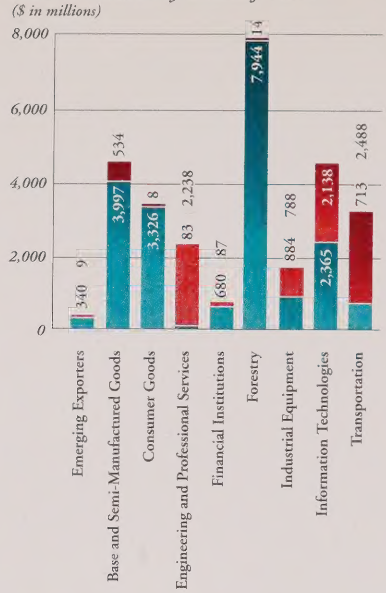


EDC
SEE

Minimize risk.
Export with
confidence.

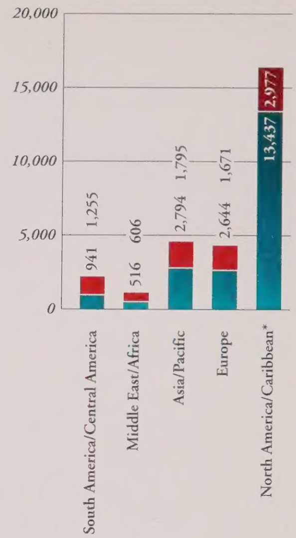
1997 Corporate Account Highlights

Business Volume by Industry Sector
($ in millions)



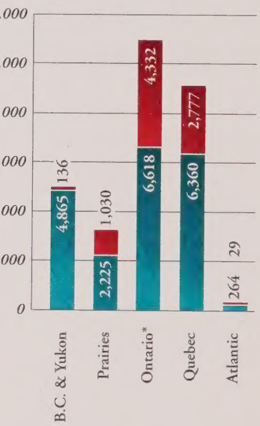
Medium- and Long-Term Financial Services
Short-Term Financial Services

Business Volume by Geographic Market
($ in millions)



** includes Mexico*

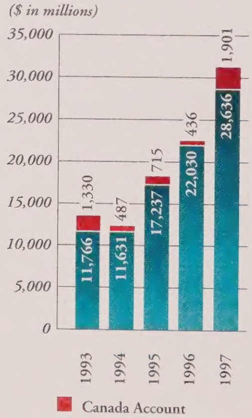
Business Volume by Canadian Region
($ in millions)



** includes other unallocated amounts*

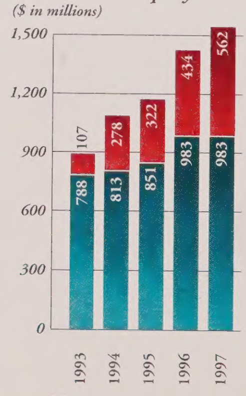
Five Year Review

Business Volume
($ in millions)



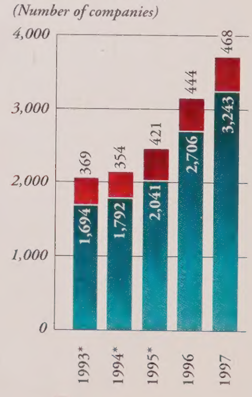
Canada Account
Corporate Account

Shareholder's Equity
($ in millions)



Retained Earnings
Share Capital

Customers Served
(Number of companies)



Large
Small/Medium
** includes direct customers only*

1997 Performance Against Objectives†

Each year, management sets objectives reflecting EDC's corporate goals. Simply stated — serving more customers, supporting more business and taking on more risk on behalf of our customers, all in a financially sound manner — form the cornerstone of EDC's corporate strategy.

Objective #1: Increase the number of customers served by 14 per cent.

The number of companies benefiting directly or indirectly from EDC services increased by 18 per cent in 1997, from 3,150 to 3,711. Of these, 87 per cent or 3,243 were small- and medium-sized companies, a priority customer segment for EDC.

1998 objective: increase the number of customers served by 16.5 per cent.

Objective #2: Increase the volume of business supported by 25 per cent.

The volume of business supported by EDC in 1997 increased by 30 per cent, from \$22.0 billion to \$28.6 billion. Although EDC's objective is to support customers wherever their international business takes them, we believe that our risk management solutions are most valued when companies venture into higher-risk markets. We set a target of \$6.5 billion of business volume in higher-risk markets for 1997, a 26 per cent increase over 1996 results, but only equaled our 1996 results of \$5.1 billion.

1998 objective: increase the volume of business supported by 14 per cent.

Objective #3: Maintain customer satisfaction at 1996 level.

In our annual customer survey, our customers rated their satisfaction with EDC in 1997 essentially, in statistical terms, as they had in 1996, with a score of 79.5 out of 100 in 1997 versus 80.6 in 1996.

1998 objective: maintain customer satisfaction at present level.

Objective #4: Increase productivity by nine per cent.

Productivity, measured by the volume of business supported per dollar spent on administration, increased by 14 per cent in 1997. This measure is being replaced in 1998 by a ratio of administrative expenses to net operating income to better reflect market practice.

1998 objective: achieve a ratio of less than 16 per cent.

Objective #5: Generate a positive net income to ensure sufficient capital for future growth.

A net income of \$128 million was achieved in 1997, which will help secure a solid financial foundation to ensure long-term competitive support to our customers.

1998 objective: generate a net income between \$100 million and \$200 million.

† *Initial 1998 targets were set in the fall of 1997 in the context of developing EDC's Corporate Plan. New operational targets for 1998 were subsequently set by management for some of the measures, based on 1997 year-end results.*

EXECUTIVE MANAGEMENT TEAM

(From left to right)
A. Ian Gillespie *President and Chief Executive Officer*
Katherine Payne *Vice-President, Human Resources*
Rolfe Cooke *Senior Vice-President, Short-Term Financial Services*
Gilles Ross *Senior Vice-President, Legal Services and Secretary*
Eric Siegel *Executive Vice-President, Medium- and Long-Term Financial Services*

CANADA'S SECRET TRADE WEAPON

In today's fiercely competitive global trade arena, winning companies are those that have well-grounded offensive and defensive export strategies. Export Development Corporation's (EDC's) flexible and innovative risk management services can be an important part of these strategies for Canadian exporters and investors.

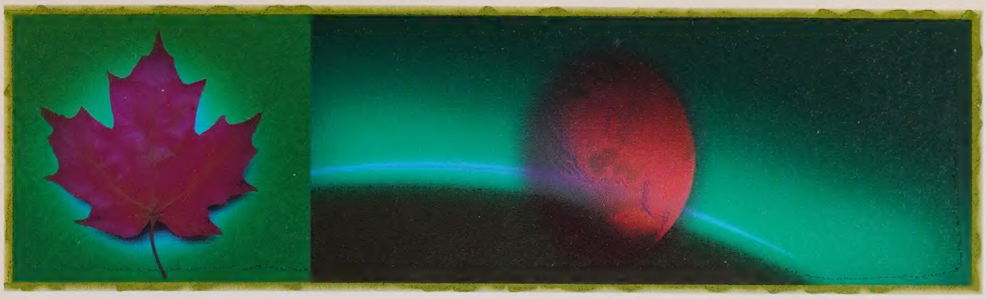
EDC's full range of risk management services — export receivables insurance, bonding and guarantee protection — provides a shield against many of the risks exporters and investors can encounter in foreign markets — markets as close as the United States.

And EDC's financing products — lines of credit and protocols, note purchase arrangements, direct buyer loans, long-term preshipment financing, leveraged lease finance and project risk financing — provide a wealth of strategic weapons that help exporters and investors conquer new markets.

These products are delivered to customers through eight business teams, which provide the front-line offence and defence Canadian companies need to succeed abroad. In addition, EDC's Emerging Exporters Team and SME Financial Services Team help small- and medium-sized Canadian companies extend their reach into global markets.

To further strengthen EDC's customer support, specialized teams provide expertise in areas such as credit surveillance and analysis, economics, equity, foreign investment insurance, international markets and project finance.

Since 1944, EDC has been helping customers minimize risk and export with confidence. Now, more than ever, Canadian companies need a leading-edge financial services corporation that can help them target export markets quickly and easily. EDC is that kind of company.



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1997 CORPORATE REVIEW

1997 FINANCIAL REVIEW

Ensuring Global Success for Small- and Medium-Sized Enterprises

EDC divides small- and medium-sized enterprises (SMEs) into two categories: small businesses with up to $5 million in annual sales, and medium-sized businesses with sales of between $5 million and $25 million annually.

"Exporting is our future. EDC has always helped us find the right financing formula to close deals."

Albert Bohemier,
President and
Chief Executive Officer,
Survival Systems Limited,
Dartmouth, NS

- In 1997, 3,243 SMEs concluded $4.8 billion in export business in 133 countries with EDC's support.

- As evidence that exports really do result in growth, 136 companies switched their business from the Emerging Exporters Team to EDC's business (industry sector-based) teams because their annual export sales grew to more than $1 million in 1997.

- The new SME Financial Services Team, dedicated to finding streamlined export credit solutions for SMEs selling on longer credit terms, worked with other EDC teams to pave the way for 76 transactions — 55 per cent more than in 1996 — valued at $285 million. Many of these deals were in higher-risk international markets.

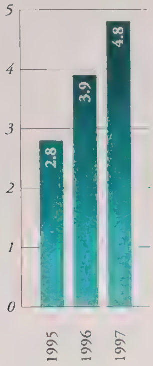
- NORTHSTAR Trade Finance Inc., a key partner of EDC in the export financing field for SMEs, financed more than $43 million in business in 1997, a 96 per cent increase over 1996. Every NORTHSTAR deal was insured by EDC.

- EDC was a major sponsor of the Asia Pacific Economic Cooperation (APEC) SME event in 1997, which brought together small-business ministers, business representatives, young entrepreneurs and export credit agencies of 18 countries. Participating governments committed to reducing the paper burden faced by SMEs in doing business in and among these economies.

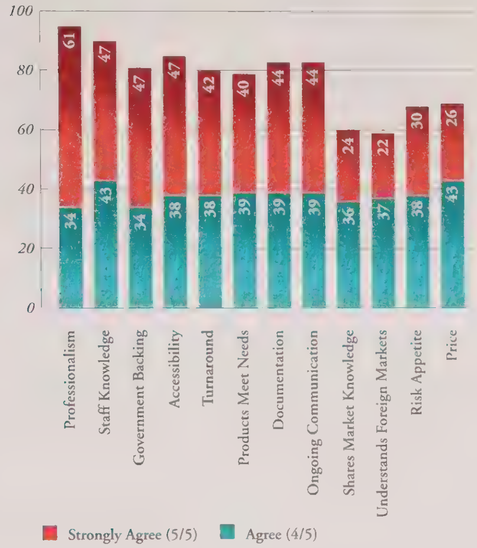
- EDC continues to develop flexible ways of encouraging banks to support more export business by smaller Canadian companies. In 1997, 119 smaller exporters received a total of $17.4 million in working capital from banks under EDC's Master Accounts Receivable Guarantee (MARG) program. A further 12 deals, valued at $5.1 million, were supported under a range of EDC's guarantee programs, such as CIBC's Grow Export program and the auto parts facility with the TD Bank.

- The United States remained the highest-risk export market (in percentage terms) for EDC's SME customers in 1997. While not quite half of EDC-backed SME business was to the United States, fully 85 per cent of insurance claims under EDC's small-business program originated from that market.

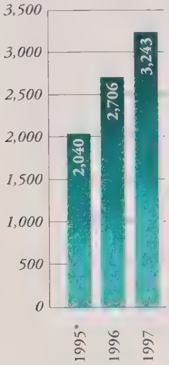
Volume Support for SMEs
($ in billions)



SME Service Attribute Ratings
(Per cent)

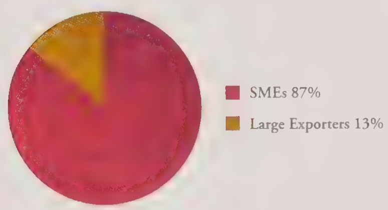


Number of SME Customers

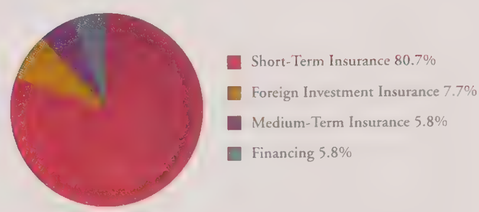


* *includes direct customers only*

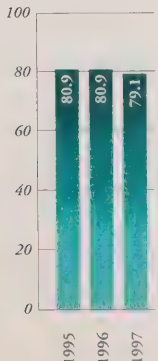
SMEs as a Percentage of EDC's Customer Base



SME Product Usage



Customer Satisfaction Index for SME Customers



SME Volume by Geographic Market

* *includes Mexico*

Patrick J. Lavelle
Chairman of the Board of Directors

A. Ian Gillespie
President and Chief Executive Officer

CHAIRMAN AND PRESIDENT'S MESSAGE

Taking Canada to the World • By all measures, 1997 was another highly successful year. EDC helped an ever-increasing number of Canadian businesses grow and prosper through international trade while maintaining its financial capacity to support future risk taking for the benefit of Canada.

We exceeded four out of our five performance targets and recorded a very strong score on our aggressive customer satisfaction benchmark. We worked with 3,711 customers, an increase of 18 per cent over the previous year, to help them generate more than $28 billion in sales and foreign investments. This represented volume growth of over 30 per cent from 1996. As a point of comparison, Canadian exports grew by close to seven per cent overall in 1997. We reported a net income of $128 million after additional prudential reserves of $295 million and increased our productivity ratio by 14 per cent. We achieved an overall customer satisfaction score of 79.5/100 against a target of 80/100, which was most gratifying given the substantial growth in customers and business volume supported.

We worked with 3,711 customers, an increase of 18 per cent over the previous year, to help them generate more than $28 billion in sales and foreign investments.

EDC's support of our customers in more than 145 global markets is one measure of our public policy mandate and our desire to showcase Canada to the world. We also set a target for 1997 of increasing the amount of volume to be concluded in higher-risk markets by 26 per cent. We did not achieve this goal, principally due to the non-renewal of some foreign investment insurance policies as well as changes to Brazilian import regulations which affected short-term insurance declared volumes.

Our role continues to grow in importance as exports become a more significant factor in the success of the Canadian economy. Since 1993, Canadian exports have increased by more than 55 per cent. EDC's business not only has kept pace with this boom, but has surpassed it; our growth over the same time period was 143 per cent. EDC is a unique financial institution offering Canadian exporters and foreign investors trade finance products, such as credit insurance, bonding, guarantees and financing, all under one roof. The Corporation has become one of the most successful export credit agencies in the world, providing Canadian companies with a competitive edge in global markets.

Although EDC operates as a commercial financial institution, our public policy role puts the emphasis on being an export maximizer, not a profit maximizer. The substantial increases in business activity over the last several years and our growing support for small- and medium-sized enterprises (SMEs) are indicators of our success in this regard. The achievement of a healthy bottom line, however, is also critical to EDC's goal of internally generating the capital necessary for additional risk taking and growth in customer support.

Given the higher-risk nature of EDC's activities in a volatile global economy, a traditional return on equity measure is not the best indicator of financial performance. Instead, we believe, it is the ongoing leverage on the original capital which better demonstrates the wealth creation and value proposition for Canada.

Since its founding, the paid-in capital of the Corporation, now totalling $983 million, has cumulatively supported in excess of $170 billion in sales and investment for Canadian companies. Equally important, this equity has grown through the generation of retained earnings now totalling $562 million, helping EDC increase support for new international trade every day.

Supporting smaller exporters • Over the past year, we continued to solidify our position as an important supplier of financial services to small business. Small business is big business for EDC. More than 85 per cent of our customers are SMEs. Through an aggressive outreach program of direct mail, use of intermediaries and other marketing efforts, we increased our SME customer base by 20 per cent. We also grew the number of transactions under $5 million concluded for our SME customers by 17 per cent. The success of our 1-800-850-9626 call centre in delivering export receivables insurance on the spot continued to be a driving force in helping us record high customer satisfaction scores from our smaller customers in 1997.

We are continually looking at ways to assist SMEs in venturing beyond Canada's borders with confidence and to leave the major financial risks to us. Or, as it has been aptly put: "Exports are not good for Canada; getting paid is good for Canada." And that's the role of EDC. We are building on the success of our outreach efforts, with particular emphasis on making smaller capital goods exporters aware of the fast and simple medium-term financing solutions we offer. In 1997, we completely revamped the way we approve loans for smaller exporters. We are now able to get letters of offer out the door in as little as 24 hours in some cases. We have set an ambitious, but realistic, target of growing our SME customer base by 17 per cent in 1998.

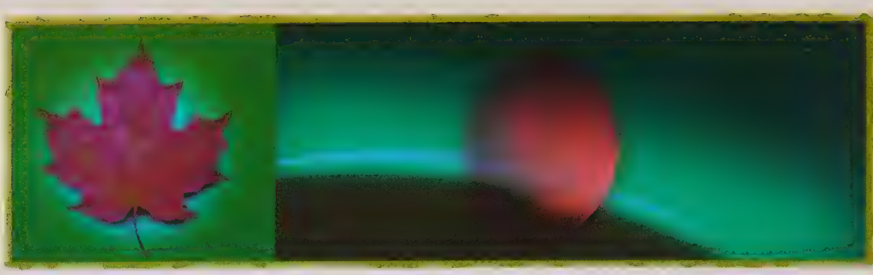
The investments we have made in technology over the past few years have contributed to our ability to provide rapid, seamless service to exporters of all sizes. For example, the average length of time it took to issue a credit approval decreased to two days in 1997, even as our short-term volumes grew by 29 per cent. More than 63 per cent of credit approvals were issued within 24 hours.

We continued to increase the amount of insurance support provided to NORTHSTAR Trade Finance Inc., which provides smaller loans to foreign buyers who are purchasing Canadian goods and services. NORTHSTAR, which counts the Bank of Montreal and the Royal Bank of Canada among its shareholders, represents another vehicle for SMEs to access medium-term financing for export opportunities.

In 1997, we completely revamped the way we approve loans for smaller exporters. We are now able to get letters of offer out the door in as little as 24 hours in some cases.

The Council of Crown Financial Institutions, which was formed in 1996 and consisted of the Business Development Bank of Canada (BDC), Farm Credit Corporation (FCC), Canadian Commercial Corporation (CCC) as well as EDC, undertook a review of opportunities for closer collaboration among these Crown corporations. Among other things, this review has led to the establishment of a seamless referral system for prospective customers, to better direct them to the appropriate Crown service provider; cross training of staff; interconnected internet sites; and other communications and marketing opportunities. The Council has now completed its work. It is expected that the Council will be replaced by meetings of the chief executive officers throughout the year. In this way, the network of contacts and communication among the Crown financial institutions will continue to expand. As well, the Crowns will report to the public annually on their business results in support of SMEs.

International arena • EDC was a major sponsor of the Asia Pacific Economic Cooperation (APEC) meetings in 1997. As well as being celebrated as the leader of a successful year-long effort to sign an historic co-operation agreement between APEC export credit agencies and export financing institutions, the Corporation was successful in generating many new contacts with foreign buyers and borrowers in APEC's 18-member economies. This will accrue benefits for Canadian exporters for years to come. As well, EDC sponsored the APEC SME Business Forum, focusing on practical ways to help SMEs grow and prosper in the region.



Based on our belief in the long-term economic potential of Asia, we expanded our presence in the China market by appointing a full-time representative in Beijing who will build on existing relationships and help create new opportunities for Canadian exporters. We also invested in a series of extended market visits to Asian and Latin American markets, which has enhanced our market intelligence and the services we provide to Canadian exporters.

Outlook • Looking ahead to 1998, EDC's goal remains to support more customers, do more business and take on more risk for Canadian exporters, all in a financially sound manner. We anticipate growing our business volume in excess of 14 per cent in 1998, whereas we are forecasting that Canadian exports will increase by five per cent next year. Thereafter, we expect a growth in exports of about seven per cent annually until 2002.

Looking ahead to 1998, EDC's goal remains to support more customers, do more business and take on more risk for Canadian exporters, all in a financially sound manner.

The economic turmoil in Asia, which began in the latter half of 1997, underscores the important role EDC plays in helping Canadian companies manage international risk. While it cannot be said in the aftermath of the events in Asia that it is "business as usual", EDC is in a strong position to look at Asia as a market offering new opportunities, rather than a problem to be avoided. The challenge in this volatile environment is being able to understand and assess the relevant risks. Our investments in people and technologies in the last several years give us cause for optimism that we can prudently manage and give our support to Canadian companies under these difficult conditions.

We are already seeing the early signs of many new customers seeking EDC support for activities not previously insured or financed by EDC due to the financial market turmoil. While there could be some unwelcomed surprises on the risk front, the Corporation's financial position is strong. Adequate prudential reserves have been taken for Asian and other credit risks and will be further increased if conditions warrant.

It is under these circumstances that EDC's role is most valued and where its mandate makes it unique in Canada. Only EDC is prepared to take on risk in some 200 countries on behalf of Canadian companies selling a wide range of goods and services. Whenever possible, however, we are looking to find opportunities to work with Canadian financial institutions to provide maximum support and expertise to assist Canadian companies.

A legislative review of EDC's mandate is scheduled to begin in 1998 and to be completed by June 1999. We welcome the opportunity to tell a wide audience of parliamentarians, exporters and other interested parties about our achievements on behalf of our customers since EDC's governing legislation was amended in 1993. We believe our story is a good one for Canadian companies going global, our shareholder and Canadian taxpayers.

The complexity of the international marketplace suggests that certain issues will continue to grow in importance in this rapidly changing world. Sustainable development, for example, is of increasing concern to individuals and corporations alike. EDC has long taken environmental concerns into account in its analysis of risk, since transactions that are not environmentally sound may, in addition to their damaging effects, not be viable and thus may be poor credit risks. Building on our existing practices, and in consultation with key stakeholders, we will introduce in 1998 an environmental framework that formalizes our procedures for building environmental risk assessment into project evaluation. We will also be formalizing a set of business principles to ensure that our employees, customers and foreign counterparties with whom we conduct business understand that EDC subscribes to the highest standard of service, ethics and integrity, consistent with the policies of the Government of Canada.

We are already seeing the early signs of many new customers seeking EDC support for activities not previously insured or financed by EDC due to the financial market turmoil.

People • This year marked the end of Paul Labbé's successful five year term as president and chief executive officer of EDC. Paul was instrumental in extending our legislative mandate in 1993, resulting in EDC being better able to meet customer needs in today's complex environment. His contributions are an important legacy for EDC's future.

At the end of 1997, Alexander (Sandy) K. Stuart retired as chairman of EDC's Board of Directors, after serving with distinction for more than three years in this capacity. Sandy has been EDC's longest-serving director, having held a directorship for some 15 years over the span of a quarter century. He brought passion, wisdom and special insight as a long-time exporter to the many challenges EDC has faced during this period. We thank him for his inexhaustible support. EDC is better meeting its mandate because of him.

We also wish to recognize the contributions of directors who retired from the Board: T. Lloyd Callahan, Brian O'N. Gallery and Jacques Laurent. During 1997, Marcel Dufour, Marcel Dutil and Robert J. Holt became new members of the Board.

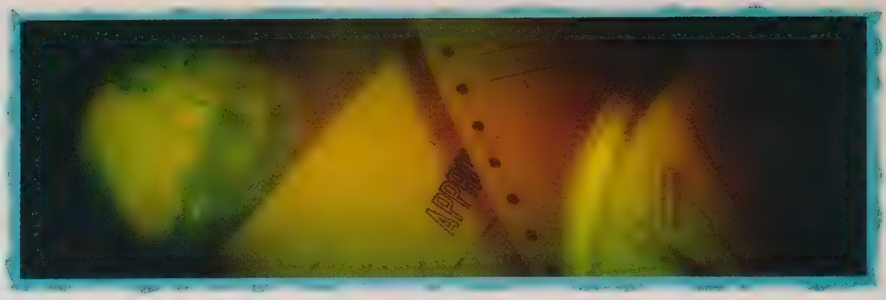
Without the dedication and creativity of our employees, we would not have been able to achieve strong results in 1997. What distinguishes EDC from other financial institutions is the breadth and depth of its trade finance skills. Once again this year, in our annual Customer Satisfaction Survey, the professionalism of our employees received top marks. Internally, the views of our employees are sought in an annual Employee Satisfaction Survey, and it was most gratifying to read that 89 per cent of employees agreed with the statement in the survey, "I am proud to work for EDC."

Providing ongoing training to new and seasoned employees is a strong priority for EDC. As a knowledge-based business, access to a skilled workforce is critical to our success. Last year we invested more than $2,000 per employee on training to help them grow professionally. We will continue to build, enhance and protect our knowledge base.

We wish to thank our employees for their extraordinary achievements in 1997. With their continued dedication and commitment, we are confident 1998 will bring further success on behalf of our customers and Canada.

Patrick J. Lavelle
Chairman of the Board of Directors

A. Ian Gillespie
President and Chief Executive Officer



SME SERVICES GROUP

FUELING THE GROWTH OF SMALLER EXPORTERS EDC'S SME Services Group provides double-barreled support, through the Emerging Exporters Team, which helps smaller exporters manage risks associated with exporting, and through the SME Financial Services Team, which generates export credit solutions for SMEs that sell on longer credit terms.

Reflecting back • No company is too small to export. Thousands of small- and medium-sized enterprises (SMEs) proved this maxim to themselves, to the Canadian economy and to foreign buyers in 1997.

Through its specialized and streamlined services for SMEs, EDC proved more than ever over the past year that no exporter is too small for EDC. A total of 1,972 smaller exporters sold $401 million in more than 120 markets with EDC's Emerging Exporters Team in their corner in 1997. Operating as a call centre, the team's underwriting specialists deliver export receivables insurance to smaller exporters on the spot, by phone and fax, during regular business hours anywhere in Canada.

"Before 1997, almost all our business was in Canada. We now sell in 80 countries, thanks to EDC's support, and in some months, 98 per cent of our sales are exports. This has significantly improved cash flow and our ability to compete."

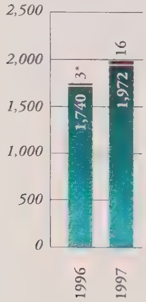
Dave Robinson, President, Amber Computer Systems Inc., Surrey, BC

During 1997, the SME Financial Services Team launched its first full year of operation as the special EDC unit that delivers streamlined buyer financing solutions to SMEs that sell on longer credit terms. The team supported more than $24 million in exports by 16 companies in 1997.

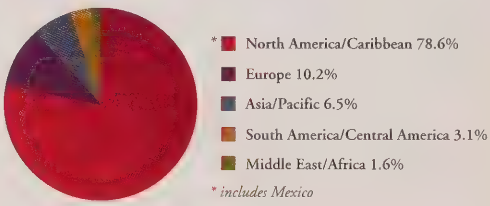
Working capital shortages and the need for pre-export financing continue to challenge SMEs. In 1997, the Master Accounts Receivable Guarantee (MARG) program helped 119 smaller exporters acquire $17.4 million in incremental bank financing. And the risk-sharing guarantee arrangement developed jointly by EDC and the CIBC gathered steam over the past year, supporting $2.2 million in pre-shipment financing for 12 companies.

Looking forward • The true strength of SMEs is their ability to respond quickly to opportunities as they arise — even when those opportunities require refinement and customization. EDC's services for SMEs need to be equally responsive. The SME Services Group will therefore continue to develop financial partnerships with banks and corporations such as NORTHSTAR Trade Finance Inc. to give smaller exporters the edge they need to compete globally.

Customers Served
(Number of companies)



Business Volume by Geographic Market



BASE AND SEMI-MANUFACTURED GOODS TEAM

REFINING EXPORT SALES EDC's Base and Semi-Manufactured Goods Team supports non-forestry and non-agri-food natural resources and processed goods of a base nature, such as ores and minerals, oil and gas extraction and refining, coal and petroleum products, chemicals, fertilizers, plastics, rubber and building materials and textiles. The team's 1997 business volume rose 10 per cent to $4.5 billion.

Reflecting back • Flexibility is the term that best describes the critical support EDC's Base and Semi-Manufactured Goods Team provided to a wide range of customers in 1997. By having specialists focus on specific subsectors, and by forming closer ties with key industry associations, the team continued to gain insight into its customers' needs and risk levels in 1997. This allowed the team to be more aggressive in assuming risk, to price its insurance products more competitively and to provide more flexible solutions to its customers. The team's growth in business volume reflects these facts.

In 1997, a number of the team's key subsectors experienced consolidation at the buyer level, which resulted in exporters holding higher concentrations of exposure with many of their key customers. Through its well-developed network of contacts and information sources, the team was able to stay on top of these developments and respond with additional coverage to its clients.

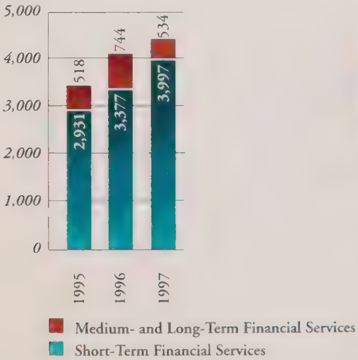
The trend in buyer consolidations has made, and is expected to continue to make, EDC's short-term insurance protection an even more valuable product for exporters of base and semi-manufactured goods. Over the past year, short-term insurance accounted for 88 per cent of the team's business volume. A total of 60 per cent of the team's customers were small- and medium-sized enterprises.

Looking forward • Canadian exports of base and semi-manufactured products are estimated to increase by 4.8 per cent in 1998. A slowdown in the growth of imports of base and semi-manufactured goods in the United States, and continued turmoil and difficulties in Asian markets, are expected. This will pose challenges both for EDC and its customers. However, the Base and Semi-Manufactured Goods Team will be open to different types of risk sharing in order to structure financial packages that are flexible and best suited to meeting customers' needs — particularly when export markets are less than stable.

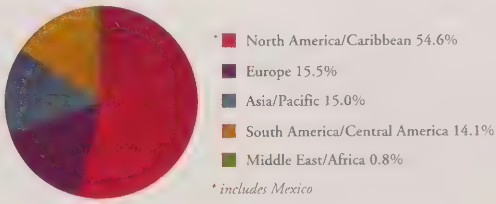
"In supporting the financing of our foreign contracts EDC acts as a true business partner, helping us develop our markets throughout the world."

Danièle Boismenu, C.A.,
Director of Finance
Expro Chemical Products Inc.,
Valleyfield, QC

Business Volume
($ in millions)



Business Volume by Geographic Market



CONSUMER GOODS TEAM

SELLING CANADIAN QUALITY TO THE WORLD EDC's Consumer Goods Team supports exporters that sell items ranging from clothing, furniture and household electrical products, to meat, fish and wheat (broadly defined as "household" goods). Business volume for this team increased by 29 per cent in 1997, hitting the $3.3 billion mark.

Reflecting back • Diversity has long characterized Canada's consumer goods sector. As a reflection of that, EDC's Consumer Goods Team provides risk-mitigating solutions to a wide array of Canadian exporters that sell to an equally wide range of countries. The past year proved no different as the team supported goods that included meat exported to Macedonia, ice wine sold to China and printed novels shipped to Thailand.

Although the scope of exports supported by the Consumer Goods Team broadened in 1997, apparel and agri-food remained the key export sectors it supports. The U.S. market absorbed approximately three-quarters of Canada's total consumer goods exports over the past year. In addition to apparel and agri-food exports, the U.S. market also accounted for the majority of home furnishings and toy exports supported by EDC. The United States continues to pose relatively high risk and represented 42 per cent of consumer goods claims EDC paid in 1997.

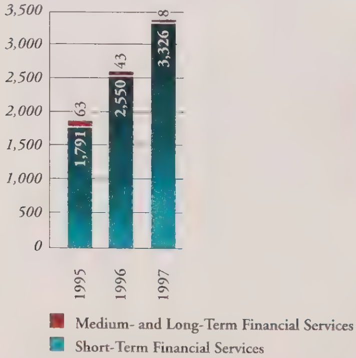
Well aware of the challenges facing Canadian exporters, the team was enlarged in 1997, enabling each team member to specialize in a particular sector. This fostered greater sectoral knowledge among team members and allowed them to focus on generating innovative risk management solutions for their customers. Nearly all EDC support for consumer goods was provided in the form of short-term insurance in 1997. Small- and medium-sized enterprises represented 76 per cent of the Consumer Goods Team's customers.

"EDC's flexibility and speed in supporting us, as well as its understanding of our exporting needs, makes it an essential business partner for us in an increasingly competitive global market."

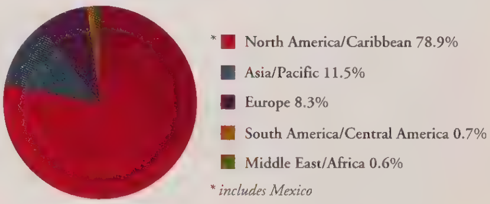
Louis Garneau, President,
Louis Garneau Sports Inc.,
Saint-Augustin-de-Desmaures, QC

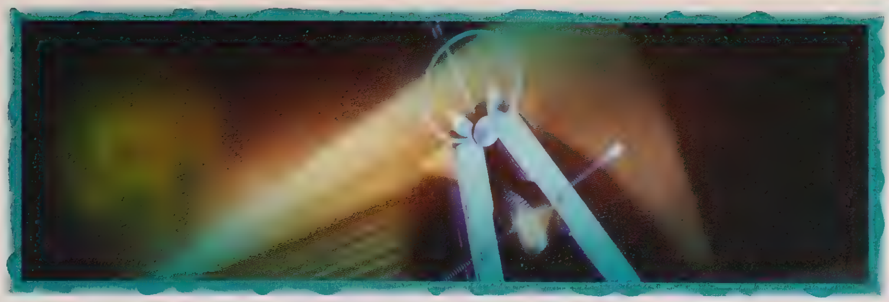
Looking forward • Consumer goods exporters can anticipate a new set of challenges in 1998. A projected cooling of the U.S. economy is expected to moderate the export growth of consumer goods relative to previous years. Moreover, exports of consumer goods to Western Europe and Japan are also expected to undergo a slow recovery. Nevertheless, the export of Canadian consumer goods is expected to grow by a healthy 8.6 per cent in 1998. Throughout 1998 and beyond, EDC's Consumer Goods Team will become increasingly innovative with its coverage as it develops a greater knowledge of the sectors it supports, by participating in industry trade shows and liaising with trade associations.

Business Volume
($ in millions)



Business Volume by Geographic Market





ENGINEERING AND PROFESSIONAL SERVICES TEAM

PROVIDING A BLUEPRINT FOR EXPORT SUCCESS Among the services and projects supported by EDC's Engineering and Professional Services Team are construction, engineering, oil and gas, power, pulp and paper, scientific, technical and architectural. In 1997, the team's business volume expanded by 51 per cent, to reach $2.3 billion.

Reflecting back • Tailoring the right product and service package to meet each customer's requirements is a hallmark of EDC's Engineering and Professional Services Team. To maintain this approach in 1997, the team increased its partnering with other financial institutions to share risks and leverage support. This was especially true in the case of projects for which the team provides limited recourse financing and foreign investment insurance. In addition, several reinsurance facilities are now in place with surety companies, allowing EDC to add capacity in support of exporters' bonding needs.

In 1997, the team placed a priority on providing support where it was most needed. Fully 93 per cent of the services exports the team supported were destined for developing countries. The team's customers continued to be major users of both insurance and financing products over the past year. The number of small- and medium-sized enterprises (SMEs) the team supported in 1997 grew from 70 per cent of its total customer base in 1996 to about 75 per cent.

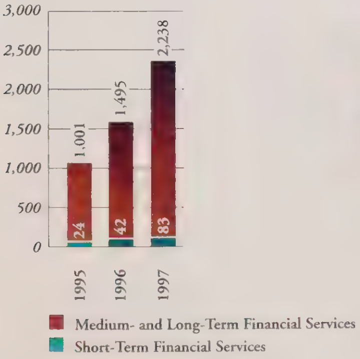
Looking forward • Canadian exports of services are forecast to rise by 6.3 per cent in 1998. To support this growth, EDC's Engineering and Professional Services Team will maintain its dual focus. The team will support Canadian companies investing and/or acting as engineering procurement contractors for projects, and will also support SME services companies in growing export areas such as environmental services and management consulting.

The Engineering and Professional Services Team expects to provide increased support for projects through structured and limited recourse financing, bonding and political risk insurance programs. This comes as a result of the continuing global trend toward privatization and EDC's recognized expertise in these areas of export credit. The team also expects to be involved in more coinsurance and reinsurance arrangements with private-sector institutions, with emphasis on flexibility, quick turnaround and competitive terms in its support. As well, the team will continue to provide support where its customers need it most — to developing countries.

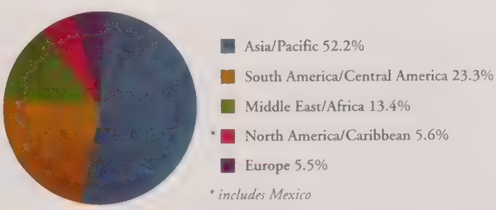
"Teaming up with EDC has assisted Attila Dogan Design & Construction Ltd in successfully outbidding other international competitors, with the added benefit of providing the opportunity for some of ADDC's Canadian subsuppliers to export for the first time."

Dale Richards,
Director, ADDC,
Calgary, AB

Business Volume
($ in millions)



Business Volume by Geographic Market



FINANCIAL INSTITUTIONS TEAM

BUILDING A PILLAR OF FINANCIAL STRENGTH In partnership with Canadian financial institutions, EDC's Financial Institutions Team supports Canadian export sales, across all industries, that call for payments from banks in foreign markets. In 1997, the team helped Canadian banks and exporters manage risks associated with sales into 35 countries.

Reflecting back • While the team's business volume was primarily made up of short-term, Letter of Credit business in 1997, the past year saw the team supporting medium-term documentary credits as well. It was a year marked by upheaval in Asian banking circles. Together with Canadian financial institutions, the team worked to ensure risk management solutions remained available for Canadian companies. The number of indirect customers (Canadian exporters) supported by EDC's Financial Institutions Team rose to nearly 100 in 1997, up 13 per cent.

Over the past year, the Financial Institutions Team helped EDC take on more business in higher-risk markets by handling bank analysis for medium- and long-term financing and insurance transactions, in addition to short-term transactions. Having EDC's bank analysis function centralized with the Financial Institutions Team allowed the Corporation to assess a foreign bank's creditworthiness faster and with greater expertise. In turn, EDC was better equipped to take on new, sound business in higher-risk markets.

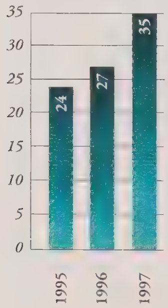
"EDC is responsive to our needs for new and more flexible risk mitigation products, helping us finance more Canadian exports to more foreign markets. This partnership benefits our exporting clients and helps us achieve our goal of becoming Canada's Export Finance Bank."

Neil Rennie,
General Manager,
Trade Finance Division, CIBC,
Toronto, ON

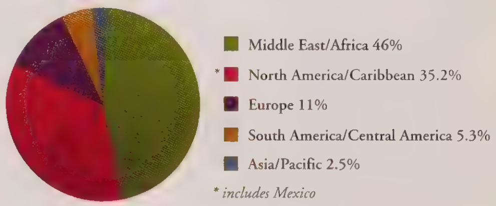
Looking forward • As Canadian banks face greater competition from their foreign counterparts, they are turning to EDC to provide increasingly innovative insurance coverage. Responding to a need to support more cost-effective transaction structures, the Financial Institutions Team expects to see business shift away from plain vanilla Letter of Credit terms. In certain markets, bank guaranteed promissory notes, standby Letters of Credit and straight bank-to-bank loans represent attractive alternatives to costly documentary credits. The team is well positioned to respond with solutions to meet the changing needs of Canadian banks.

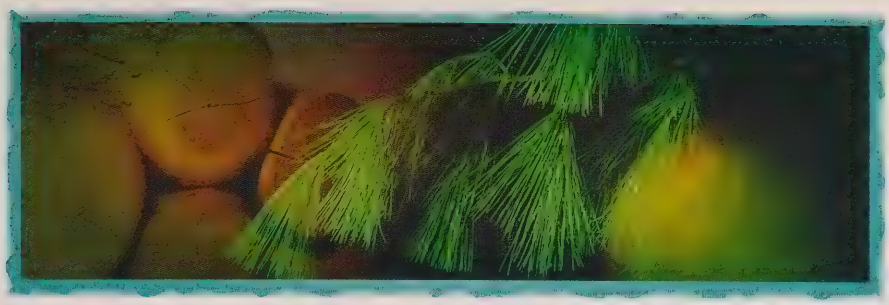
Other areas of greater co-operation include increasingly flexible risk sharing on transactions. Whereas EDC usually provided 90 per cent coverage, financial players will be looking to the team to provide variable levels of protection to complement their own risk appetites. By increasing its creativity and flexibility in its role as a critical partner in higher-risk markets, EDC's Financial Institutions Team will provide financial institutions with the additional reach and capacity they need to support Canadian exporters.

Countries Insured



Business Volume by Geographic Market





FORESTRY TEAM

HELPING EXPORTERS BRANCH OUT Lumber, pulp, paper and value-added forest products are key subsectors supported by EDC's Forestry Team. In 1997, the team's business volume soared by 45 per cent, to reach $7.9 billion.

Reflecting back • Canada's forestry sector experienced a year of transition in 1997, which was marked by acquisitions, mergers and corporate and financial restructuring among several of the major players. Canadian lumber heading south of the border did not diminish in the past year despite the Canada–U.S. Softwood Lumber Agreement, as demand remained strong during most of the year. The main contributor to the increase in forestry exports in 1997 was, indeed, the growth in lumber exports to the United States. EDC's support also flourished for this vital export sector in 1997 — increasing by 88 per cent over 1996.

The credit risks facing exporters of lumber to the United States were primarily in the retail home improvement sector. The risk level in this sector rose dramatically over the past year and was marked by several companies undergoing significant restructuring to cope with intense competition. This sector drew business to EDC and was also the sector in which EDC paid several forestry claims resulting from bankruptcies.

EDC also provided more protection to forestry companies exporting to Asian countries as the economic and financial difficulties in that region mounted as the year came to a close. Support for forestry exporters was almost entirely provided under EDC's short-term insurance program. Small- and medium-sized enterprises represented close to 60 per cent of the Forestry Team's clients.

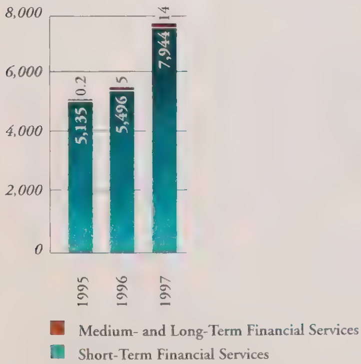
"For many years, we have used EDC's services. Presently, with the Asian markets in such turmoil we are even more aware of the value of EDC support for both our buyers and their banks."

John Titos,
Export Credit Manager,
International Forest
Products Limited,
New Westminster, BC

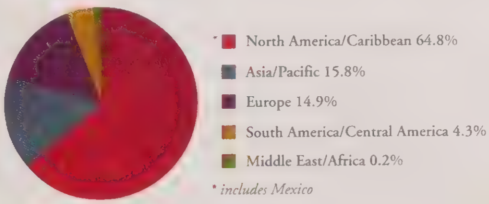
Looking forward • Annual growth of five per cent is predicted for Canadian forest products from 1998 to 2001. The economic and financial crisis, however, will decrease export opportunities in Asia for Canadian forest products, notably in Japan. China, however, remains a strong economic market. The Asian financial crisis should result in more exporters insuring their Asian receivables with EDC, including Letter of Credit transactions that were traditionally uninsured.

More mergers and acquisitions are expected among large North American forestry companies in 1998 and, to a larger extent, in the Western European forestry industry. EDC will meet its forestry customers' evolving needs in 1998 and beyond and will continue to exercise flexibility to meet their insurance needs.

Business Volume
($ in millions)



Business Volume by Geographic Market



INDUSTRIAL EQUIPMENT TEAM

EQUIPPING EXPORTERS TO TAKE ON THE WORLD *Power generation equipment, oil and gas equipment, plastics molding, construction, agricultural and environmental equipment are among the goods supported by EDC's Industrial Equipment Team. Business volume increased by 47 per cent in 1997, reaching $1.7 billion. Power equipment and oil and gas equipment showed particularly strong performance.*

Reflecting back • Innovation laid the foundation for success for EDC's Industrial Equipment Team and its customers in 1997. The team launched a cutting-edge automotive tool, die and mold facility that bridges a financing gap for tooling manufacturers. The facility serves Canadian automotive parts manufacturers and a large number of tool, die and mold producers, most of which are small- and medium-sized enterprises (SMEs). Indeed, more than 77 per cent of the team's customers are SMEs. At the end of 1997, more than 25 agreements had already been finalized with tool, die and mold makers, to finance $60 million worth of tooling exports. This program is expected to support double the number of toolers in 1998 compared with 1997.

"EDC, in partnership with our bank, provided an innovative credit facility which has benefited TRIAM and its Canadian tool, die and mold suppliers. In the automotive parts industry, where customer service and product quality are a necessity, it is refreshing to see EDC driven by that same necessity."

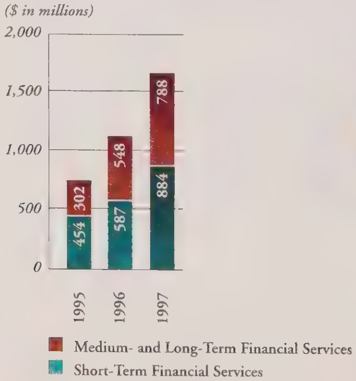
James Nicol,
Chairman and
Chief Executive Officer,
TRIAM Automotive Inc.,
Concord, ON

Revolutionizing EDC's business with India, the Industrial Equipment Team finalized the Corporation's first private-sector transaction in that dynamic economy over the past year. The transaction has enabled several Canadian companies to win business there and paves the way for Canada to conclude more private-sector business with India. Short-term insurance accounted for 53 per cent of the team's support in 1997, followed by financing at 38 per cent.

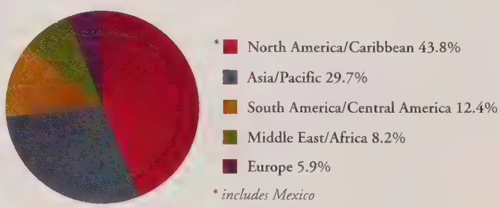
Looking forward • Canadian exports of industrial equipment are forecast to rise by more than six per cent in 1998, with the United States accounting for much of the growth. EDC's Industrial Equipment Team is poised to provide the additional support exporters will need. For instance, customers of Canadian industrial equipment exporters are becoming more reluctant to issue Letters of Credit as a method of payment for equipment purchases. This is making EDC's Global Comprehensive Insurance program increasingly appealing to Canadian manufacturers that are negotiating more contracts on an open account basis.

As well, EDC's growing reputation as a leading project risk lender has the Industrial Equipment Team participating in more and more limited recourse transactions for such projects as oil refineries, petrochemical plants and private power facilities. And EDC's reinsurance agreements with other export credit agencies will allow it to continue to support Canadian exporters that may have operating facilities in other countries.

Business Volume
($ in millions)



Business Volume by Geographic Market



INFORMATION TECHNOLOGIES TEAM

LINKING CANADA TO GLOBAL MARKETS *EDC's Information Technologies Team supports several sectors, including telecommunications equipment, electronic parts, computers, instrumentation, and software and services. In 1997, the team's business volume skyrocketed to $4.5 billion, a 43 per cent increase.*

Reflecting back • Strong growth continued to characterize the information technology (IT) sector both in Canada and around the world in 1997. EDC's Information Technologies Team expanded its support by 43 per cent over the past year to keep pace with the growth and success of its customers. The IT sector is highly dependent on global growth opportunities, and Canadian firms successfully penetrated new markets and grew market share in existing markets in 1997. Telecommunications was the driving force in the IT sector. Canadian companies won significant contracts in wireless and fixed-line telephony, data transmission and internet-enhancing technology and software that are sweeping the world. As well, a number of Canadian computer subsystem equipment companies posted significant international sales.

Export receivables insurance, contract bonding and foreign investment insurance support accounted for 60 per cent of the Information Technologies Team's support in 1997, and financing accounted for 40 per cent. A total of 79 per cent of the team's customer base were small- and medium-sized enterprises.

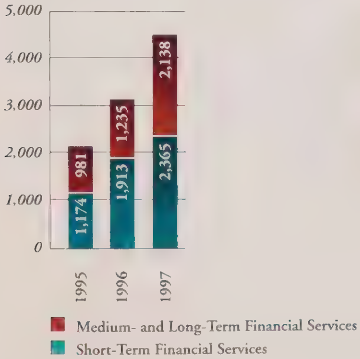
"EDC's insurance and financing support has been invaluable to Newbridge Networks and the Newbridge affiliates. EDC turns around complex transactions quickly, is a key strategic partner as we grow our export business in new markets and is an integral part of our prudent approach to risk management."

Douglas K. McCarthy,
Vice-President,
Finance and Treasurer,
Newbridge Networks
Corporation,
Ottawa, ON

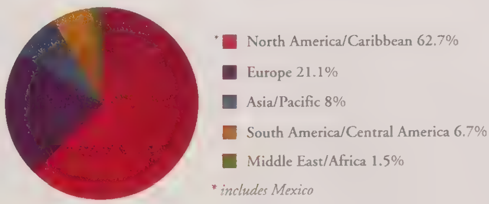
Looking forward • The global IT sector is expected to continue to grow by an average of 15 per cent annually for the next five years. Latin America, Eastern Europe and Russia, in particular, offer opportunities for Canadian IT exporters in 1998. The outlook is for tremendous growth in the global telecommunications sector well into the new millennium. Excellent opportunities exist for entrepreneurial Canadian IT firms to break into new markets.

Along with the trend toward private-sector initiated projects is a growing requirement for vendor financing support. EDC's Information Technologies Team is well equipped to assist exporters and their financial advisors in meeting these requirements through more co-operative financings throughout 1998. Although export growth in the computer and electronic components sectors is expected to slow in all product segments, promising opportunities remain for specialty niche players in the areas of data networking, graphic cards and sound processing. EDC plans to be a factor in their international success.

Business Volume
($ in millions)



Business Volume by Geographic Market



TRANSPORTATION TEAM

PUTTING EXPORT SALES IN MOTION Manufacturers of aircraft and parts, motor vehicles and parts, shipbuilding and repair, railroad rolling stock (train and metro cars) and other transportation equipment reaped the benefits of support provided by EDC's Transportation Team in 1997. Business volume totalled $3.2 billion.

Reflecting back • Building strong and lasting partnerships with customers is a key goal of the Transportation Team. Attesting to that, the team's Aerospace Unit supported an increasing number of small- and medium-sized exporters in 1997 through its innovative tooling finance program. The unit also participated in its first limited recourse project finance transaction over the past year.

There was significant growth in the volume of railway exports supported by the Transportation Team during 1997. This mirrored the success of Canadian companies meeting the challenges of this increasingly competitive sector. The Transportation Team also worked closely with the auto industry and related associations, both in the after-market and the original equipment market, in 1997. EDC's understanding of the industry grew, as did the industry's understanding of EDC.

Financing accounted for 60 per cent of the team's support in 1997, followed by short-term insurance at 22 per cent and medium-term insurance/foreign investment insurance at 18 per cent. Small- and medium-sized enterprises represented 61 per cent of the team's client base.

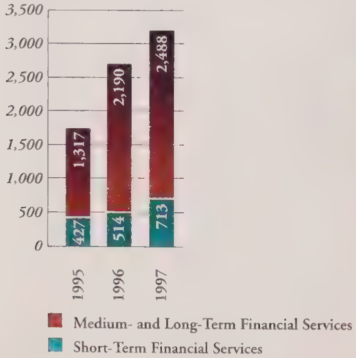
"EDC support is critical for GM Diesel's global expansion, particularly with the globalization of international markets and privatization taking place in the rail sector outside of North America."

Jeff McDonald,
Assistant Secretary and Administrator of Financial Operations, Diesel Division,
General Motors of Canada Limited,
London, ON

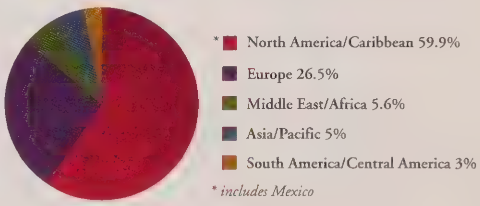
Looking forward • Exports of transportation goods (primarily autos, aircraft and their related parts) from Canada are projected to increase by 4.7 per cent in 1998, down from 1997 growth. Canadian sales of aircraft and parts to the United States are expected to rise by 10.7 per cent. The outlook for Canadian aerospace companies remains favourable in 1998, with exports projected to rise by 7.6 per cent. Again, this growth will be concentrated in the United States.

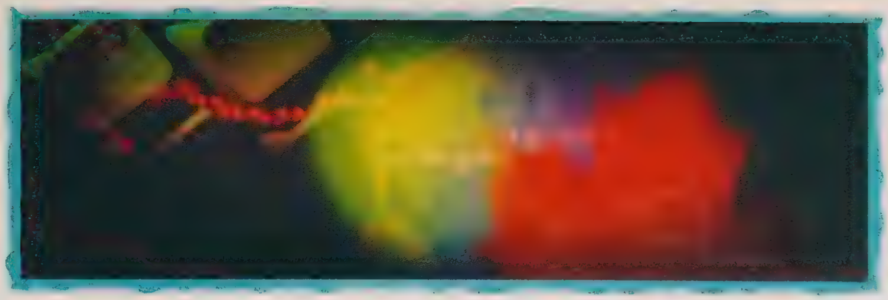
On the rail side, EDC's Transportation Team is seriously considering providing support for Canadian freight car manufacturers, which hold close to 20 per cent of the North American market for this sector. The team is eager to participate in this dynamic niche. Strategically, the team will be working more closely with the national transportation sector manufacturers' associations to develop financing support mechanisms and international sales finance information packages and programs in 1998.

Business Volume
($ in millions)



Business Volume by Geographic Market





Customer Support Teams

UNDERLYING STRENGTH While EDC's business teams provide customers with the front-line support they need to expand their global business, these teams in turn require reinforcement to maximize customer support. Their underlying strength comes from EDC's specialized customer support teams, which provide expertise in such areas as credit surveillance and analysis, economics, equity, foreign investment insurance, international markets and project finance.

Reflecting back • Looking forward

Credit Surveillance & Analysis Group

During 1997, EDC's Credit Surveillance & Analysis Group increased its permanent staff to bolster customer support. Four teams were created to provide specialized service, including two buyer high-risk teams. These two teams closely monitor EDC's short-term exposure in key industrial and geographic markets and provide the business teams with analytical support to assess buyer creditworthiness. As well, the Automated Credit Facilities Team continued to enhance its automation tools for quicker turnaround in assessing the risk of potential buyers.

In 1998, the team will again improve its turnaround time on decision making through enhanced automation and will provide customers with increasingly innovative and timely analytical support.

"EDC's Foreign Investment Insurance Team played a key role in bringing the Alumbrera financing together. Its customer focus and willingness to innovate make it an ideal partner."

Brent Cochrane,
Treasurer, Rio Algom Limited,
Toronto, ON

Economics Division

EDC and its clients demand high-quality and timely information and advice on risks and opportunities in the global marketplace. In 1997, the Economics Division adopted new analytical methods and early warning systems for measuring economic and political risk, implemented new research tools and established broader information bases.

In 1998, the division will continue to sharpen its economic and political research and analysis capabilities. It will also find ways to more effectively share the results of this analysis with its customers.

Equity Team

The Equity Team was created in April 1997 to help EDC enhance its higher-risk capacity. The team provides supplemental, medium-term equity on a commercial basis for export transactions that generate direct, quantifiable benefits to Canada. EDC acts as an equity "catalyst" — a minority investor that leverages public- and private-sector capital.

The team will build upon its 1997 activities by working creatively with both exporters and co-investors. Transactions may include both individual investments and collaborative equity funds. The team is working on transactions in North America, Europe, Southeast Asia and the Far East.

Foreign Investment Insurance Team

EDC's Foreign Investment Insurance Team continued to provide innovative, leading-edge political risk insurance support to investors, exporters and financial institutions in 1997. The team co-led a political risk insurance policy involving four other agencies, with coverage provided to a syndicate of banks lending to a major mining project in Argentina. Other firsts included issuance of a global insurance policy covering investments in several countries.

For 1998, the team is well positioned to take advantage of reinsurance and coinsurance risk partnering opportunities in support of its clients. The team will continue to support traditional business, such as resource-based projects in regions that include South America. It also anticipates increased demand for insurance cover for non-traditional industry sectors and in markets attracting increased attention, such as the former Soviet Union and Africa.

International Markets Team

During 1997, EDC's International Markets Team launched extended visits to China, Brazil and India and established a representative in Beijing. The team created new lending techniques, such as the prefunded Turk Eximbank US$50 million line of credit. The team also launched EDC as a major sponsor of the Asia Pacific Economic Cooperation events in Canada during 1997.

The team will kick off 1998 by participating in the Team Canada trade mission to Mexico, Brazil, Argentina and Chile. The International Markets Team's focus on building key foreign relationships for EDC will continue to contribute to the creation of business opportunities for the long-term future of EDC and its customers.

Project Finance Team

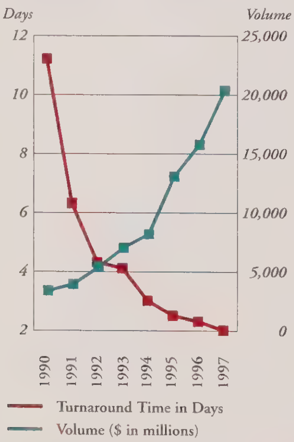
EDC's Project Finance Team closed its 30th project financing transaction in 1997. Its financing support provided over the past three years totals almost US$2.2 billion, including close to US$1.4 billion provided in 1997. EDC's limited recourse financing support meets Canadian exporters' growing needs for flexible and innovative structured financing for their projects.

The Project Finance Team expects recent events in Asia and other developing markets will impact on the number of project financings closed in 1998. Nevertheless, the number of proposals for EDC's limited recourse support is expected to increase in 1998.

"Nortel and our customers have benefited extensively from the superior project and structured finance skills that EDC staff bring to the table. EDC is our single most important financial partner in delivering customer financing solutions to our customers. Its specialized industry and project financing teams are at the heart of this success."

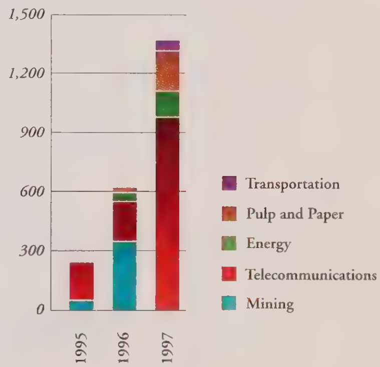
C.W.M. Scott,
Executive Vice-President,
Corporate and
Chief Financial Officer,
Northern Telecom Ltd.,
Brampton, ON

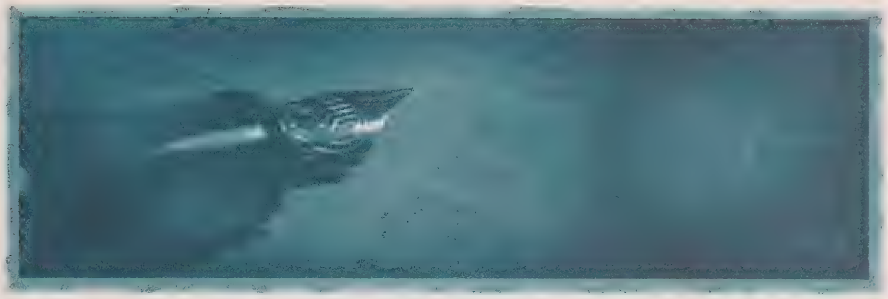
Credit Surveillance & Analysis Group Turnaround Time in Days vs. Short-term Insurance Volume ($ in millions)



Enhanced automation has led to improved service.

Project Finance Team Signings by Sector and Year
(US$ in millions)





1997 Financial Review

Export Environment

Entering 1998, the dominant theme in the global marketplace continues to be the ongoing Asian financial crisis and the fallout Canada can expect from this economic downturn. Not only will the troubles in Southeast Asia negatively impact Canada's direct export prospects to the region, but indirectly, the crisis has weakened global commodity prices, slowed growth in other regions of the world and intensified competition.

Notwithstanding this rather bleak Asian economic outlook, the negative effects of the Asian contagion should not be overstated. The five countries forming the epicentre of the financial crisis — Thailand, Indonesia, South Korea, Malaysia and the Philippines — account for just over 3% of world demand and less than .5% of Canadian exports. While sales prospects in Southeast Asia are poor in the short term, prospects for most of Canada's other markets around the world remain good.

In the industrialized world, the star performer is our most important market, the United States. After seven years of expansion, the U.S. economy shows no sign of a downturn. Indeed, one of the major risks to sustained expansion — inflation in product markets, labour markets and asset markets — has been diminished considerably as the Asian crisis shatters "irrational exuberance" and puts downward pressure on product prices south of the border. The continued prospect of low interest rates will combine with higher wages and full employment to feed continued growth in consumer spending. This, together with continued buoyancy in investment spending, means that demand growth will register about 3% this year. Canadian exports to the United States are forecast to grow by 5.6% in 1998.

Low interest rates will also stimulate consumer and investment spending in continental Europe, although the impact on demand will be offset by the ongoing structural changes throughout 1998. Governments there are now in the midst of a major retrenchment, while corporate Europe is restructuring to regain lost competitiveness. The net result is a jobless recovery reminiscent of the one that Canada experienced in the mid-1990s — strong export demand alongside weak domestic demand; and a strengthening corporate sector alongside a weakening household sector. European domestic demand should register 2% to 2.5% this year. Canadian exports to Europe, having suffered through a near 6% drop in 1997, are expected to show improved growth of 1.7% in 1998.

In Japan, domestic demand has been deteriorating throughout 1997. Not only has the yen depreciated sharply against the U.S. dollar, but equity prices have dropped by over 27% since mid-1997. Despite this economic stagnation, a gradual recovery in consumer confidence, supported by an expected strengthening in labour market conditions, may improve the overall outlook for 1998. Still, Canadian exports to Japan peaked early in 1997 and have since been on a downward trend, reflecting poor demand conditions. This will limit Canada's export opportunities in this market in 1998. Overall Canadian exports to Japan are expected to decline by 1.6% in 1998.

Among the emerging markets, the contagion embodied in the loss of investor confidence has so far been largely contained to South Korea and the ASEAN-4 (the Philippines, Thailand, Indonesia and Malaysia).

In emerging Asia — outside the ASEAN-4 and South Korea — growth prospects are reasonably good. The mega-economies of India and China have been largely unchallenged by the markets and will continue to show rapid, albeit slower, growth in 1998. It is generally felt that Hong Kong, Singapore and Taiwan have economies sufficiently strong to withstand the effects of the Asian contagion. Market growth for Asia as a whole will be about 5.5% in 1998. This compares with 7% growth in 1997. As a result, Canadian exports to Asia are forecast to grow by 4% in 1998.

In Latin America, investors did attack the Brazilian real last fall, but thanks to a swift and cohesive policy response, Brazilian authorities were able to ward off the attack. However, the cost, in terms of economic growth for both Brazil and South America, was high. The consequence of a doubling of interest rates and a strong package of fiscal measures will lead to a drop in Brazil's economic growth from 3.5% in 1997 to 1.5% in 1998. This slowdown of Latin America's largest market will be transmitted to the region as a whole, where growth will slow from over 5% in 1997 to about 3.5% in 1998. Canadian exports to Latin America are expected to increase by 5.8% in 1998, after rising by an estimated 1.2% in 1997.

In Eastern Europe and the former Soviet Union, the Russian ruble came under intense pressure late in 1997, resulting in higher interest rates. Eastern Europe continues to offer strong growth prospects for 1998 despite the retrenchment under way in the Czech Republic. This will likely be mirrored by Slovakia and perhaps Poland. Economic growth of about 5% is forecast for 1998. Canadian exports to Eastern Europe and the former Soviet Union are expected to increase by 3.4% in 1998, after declining by an estimated 3% in 1997.

The bottom line is that Canadian exporters can look forward to reasonably good world market prospects in 1998. With global demand growth at 3.5%, Canadian exports overall should grow by about 5%, providing plenty of opportunity for Canadian exporters.

Performance against Objectives

EDC's vision of doing more business with more customers and taking on more risk on behalf of our customers, all in a financially sound manner, is tracked by way of a number of performance measures. These measures have been updated from the ones presented in the 1998 Corporate Plan to reflect revised estimates based on the final results for 1997.

CUSTOMER SATISFACTION

Customer satisfaction is fundamental to every aspect of our business. A component of our annual customer survey is the Customer Satisfaction Index (CSI), which rates our customers' overall satisfaction with EDC as well as their likelihood of recommending EDC to their business associates. The 1997 result was, essentially, in statistical terms, the same as in 1996, indicating that our customers are very satisfied with EDC. Since customers' expectations grow over time and the impact of EDC's actions takes time to translate into higher CSI scores, the 1998 target is to maintain customer satisfaction at the current level.

	1996 Actual	1997 Target	1997 Actual	1998 Target
CSI score (out of 100)	80.6	80.0	79.5	*

**Maintain customer satisfaction at the current level.*

CUSTOMERS SERVED

The number of companies benefiting directly or indirectly from EDC services increased by 18%. Of these, 87% were small- and medium-sized enterprises, a priority customer segment for EDC.

	1996 Actual	1997 Target	1997 Actual	1998 Target
Customers served	3,150	3,600	3,711	4,325

BUSINESS VOLUME

A measure of our success in meeting the financial needs of our customers is the volume of business concluded during the year. The volume concluded under each of our programs increased in 1997, for a total increase of 30% over 1996 and 4% over the 1997 target. Continued growth is projected for 1998.

($ in billions)	1996 Actual	1997 Target	1997 Actual	1998 Target
Short-term	15.7	19.2	20.3	23.3
Medium- and long-term	6.3	8.3	8.3	9.4
Total	$22.0	$27.5	$28.6	$32.7

PRODUCTIVITY

Productivity, measured by the volume of business supported per dollar spent on administration, increased by 14% in 1997, exceeding the target as a result of higher than projected business volume.

	1996 Actual	1997 Target	**1997 Actual**	1998 Target*
Productivity ratio	$367	$400	**$417**	<16%

**This measure is being replaced in 1998 by a ratio of administrative expenses to net operating income to better reflect market practice.*

FINANCIAL RESULTS

EDC recognizes the need to secure a solid financial foundation to ensure long-term competitive support to our customers. As such, we need to augment our capital base through retention of net income in order to meet the growing demands of our customers and to take on more risk on their behalf. Net income for 1997 fell short of the target largely because most of the impact of debt relief totaling $141 million expected during the year did not materialize, as the country concerned did not meet International Monetary Fund (IMF) criteria for Paris Club debt relief.

($ in millions)	1996 Actual	1997 Target	**1997 Actual**	1998 Target
Net income	$112	$226	**$128**	$100-200

Operating Highlights

Income Statement Discussion

NET INCOME

Net income reported for 1997 was $128 million, an increase of $16 million over the 1996 level of $112 million. The higher profit for 1997 was the result of significant volume increases both in financing and insurance, generating a $30 million increase in net interest income and a $20 million increase in premium and fee revenue. These effects were partially offset by a higher provision for credit losses and higher administrative expenses.

The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	**1997**	1996	1995	1994	1993
Net income	**128**	112	44	171	41
Shareholder's equity	**1,545**	1,417	1,173	1,091	895
Return (%) on shareholder's equity	**8.3**	7.9	3.8	15.7	4.6

NET INTEREST INCOME

Net interest income increased by 9% to $363 million from the 1996 level of $333 million.

For 1997, net interest income was $363 million on average assets employed of $12,888 million, yielding a net margin of 2.82%. The net margin is defined as net interest income expressed as a percentage of average assets employed.

In 1996, the Corporation adopted the new accounting standards for impaired loans and changed the method by which cash receipts for impaired loans from either impaired borrowers or the Government of Canada through debt relief are applied. Commencing in 1996, no portion of cash received for impaired loans is recorded as interest earned until such time that any specific allowance has been reversed. Prior to 1996, large payments were received for impaired loans and significantly increased loan interest earned.

The following table shows both net interest income, as reported in the financial statements, and adjusted net interest income, which excludes interest from impaired loans to provide better comparability with years prior to 1996. These amounts are shown with the average assets employed over the last five years.

($ in millions)	**1997**	1996	1995	1994	1993
Average gross loans receivable	**11,129**	10,073	9,803	9,018	8,306
Average cash, marketable securities and investments	**1,759**	1,701	1,269	1,587	1,770
Total average assets employed	**12,888**	11,774	11,072	10,605	10,076
Interest income:					
Loan interest earned	**752**	671	799	737	540
Investment interest earned	**92**	99	87	59	91
Total interest income	**844**	770	886	796	631
Interest expense	**481**	437	485	458	427
Net interest income	**363**	333	401	338	204
Impaired interest income	**3**	-	127	230	95
Adjusted net interest income	**$360**	$333	$274	$108	$109

Loan Interest Earned

Loan interest earned increased by $81 million in 1997, the result of overall growth achieved in the loans portfolio.

For 1997, loan interest earned was $752 million, an increase of $81 million from the level of $671 million in 1996. Loan interest earned includes $42 million (1996 – $39 million) relating to the amortization of non-accrued capitalized interest for performing loans previously classified as impaired. Loan interest earned also includes exposure fees of $39 million (1996 – $37 million) and debt relief revenue of $3 million (1996 – nil).

The following table analyzes loan interest earned as a percentage of the average loans receivable for 1997 with 1996 comparatives:

($ in millions)	Increase/(decrease)		**1997**		1996	
	$	%	**$**	%	$	%
Loans receivable:						
Average performing fixed rate	404	9	**4,685**		4,281	
Average performing floating rate	702	18	**4,575**		3,873	
Average impaired	(50)	(3)	**1,869**		1,919	
Average gross loans receivable	1,056	10	**11,129**		10,073	
Loan interest earned:						
Performing fixed rate interest earned	25	7	**377**		352	
Performing floating rate interest earned	48	20	**291**		243	
Other loan interest earned	8	11	**84**		76	
Total loan interest earned	$81	12%	**$752**	**6.8%**	$671	6.7%

The performing fixed rate loans receivable averaged $4.7 billion in 1997 (1996 – $4.3 billion) with an average coupon rate of 7.94% (1996 – 8.06%). The yield on the fixed rate portfolio continued its gradual decline in 1997, due to the replacement of older loans earning the higher interest rates reflective of previous periods with current loan signings which carry the lower interest rates of recent years. The performing floating rate loans receivable averaged $4.6 billion in 1997 (1996 – $3.9 billion) with an average coupon rate of 6.22% (1996 – 6.19%).

The increase in the average balance for both the fixed and floating rate portfolios during 1997 was primarily the result of loan disbursements exceeding repayments.

Investment Interest Earned

The following table analyzes investment interest earned as a percentage of the average cash, marketable securities and investments for 1997 with 1996 comparatives:

($ in millions)	Increase/(decrease)		1997		1996	
	$	%	$	%	$	%
Average cash and marketable securities	(38)	(3)	1,357		1,395	
Average investments	96	31	402		306	
Total	58	3	1,759		1,701	
Investment interest earned	$(7)	(7)%	$92	5.2%	$99	5.8%

Investment interest earned was $92 million for 1997 (1996 – $99 million) resulting in an average return of 5.2% (1996 – 5.8%). During 1997, the proportion of Canadian dollar denominated securities increased to 40% of the total average balance (1996 – 18%) while the proportion of U.S. dollar denominated securities decreased to 36% (1996 – 50%). This was due to the implementation of a new investment strategy that focused on increasing the Canadian dollar portfolio. Interest rates in Canada are lower than in the U.S. market. The reduced average return of 5.2% for 1997 is indicative of the interest rate environment experienced during 1997 in both these markets and also reflects EDC's move to a more heavily weighted Canadian dollar portfolio.

Interest Expense

The following table analyzes interest expense as a percentage of the average loans payable for 1997 with 1996 comparatives:

($ in millions)	Increase/(decrease)		1997		1996	
	$	%	$	%	$	%
Average fixed rate payables	(157)	(6)	2,336		2,493	
Average floating rate payables	843	16	6,071		5,228	
Average deferrals, unamortized discounts and premiums	(6)	(11)	48		54	
Average total loans payable	680	9	8,455		7,775	
Net interest expense	41	9	489		448	
Foreign exchange translation (gain)/loss	(3)	(27)	(8)		(11)	
Total interest expense	$44	10%	$481	5.7%	$437	5.6%

Interest expense for 1997 totalled $481 million, a 10% increment over the 1996 level of $437 million. The increase was the result of a larger loans payable balance and higher interest rates in both Canada and the United States in 1997.

The average loans payable balance increased by 9% to $8,455 million in 1997. Additional funding was required to support the growth of loan assets on EDC's books.

The Bank of Canada raised short-term interest rates in Canada by 125 basis points in 1997, while interest rates in the United States increased by 25 basis points over the same period. Since EDC's floating rate portfolio represents over 70% of the total loans payable outstanding, any increase in interest rates translates into a higher interest expense for the period.

Included in interest expense was an $8 million foreign exchange gain (1996 – $11 million gain).

PREMIUM AND FEE INCOME

Insurance Premiums and Guarantee Fees

Insurance premiums have increased as a direct result of the increase in insurance volumes, primarily in the short-term program.

The following table analyzes insurance premiums and guarantee fees as a percentage of insured volumes and average loan guarantees exposure for 1997, with 1996 comparatives:

($ in millions)	Increase/(decrease) $	Increase/(decrease) %	1997 $	1997 %	1996 $	1996 %
Short-term program:						
Insured volumes	4,576		20,332		15,756	
Premiums and fees earned	6	(.06)	73	.36	67	.42
Medium-term program:						
Insured volumes	254		2,850		2,596	
Premiums and fees earned	-	(.07)	22	.78	22	.85
Medium-term loan guarantees average exposure	192		576		384	
Medium-term loan guarantee fees earned	1	(.03)	4	.78	3	.81
Total average premium and fee rate		(.07)%		.42%		.49%

Short-term insurance revenues contributed $73 million or 79% of 1997 premium revenue, an increase of 9% over 1996. This was the direct result of the growth in short-term insurance volumes which increased by $4.6 billion, or 29% over 1996.

The medium-term program revenues for the year were $22 million, no change from the 1996 revenues.

Premium and fee revenue of $99 million was recorded for 1997, an 8% increase over the 1996 level of $92 million. Total premiums and fees earned as a percentage of insured volumes and average loan guarantees exposure decreased from 0.49% in 1996 to 0.42% in 1997. The average premium rate in both the short-term and medium-term programs decreased largely due to increased volumes of business in lower-risk markets.

Other Fees

($ in millions)	1997	1996	1995	1994	1993
Other fees	$30	$17	$14	$17	$16

Other fees consist primarily of revenue from loan administration fees and commitment fees. These fees increased significantly in 1997, mainly as a result of the overall growth in business volumes.

PROVISION FOR CREDIT LOSSES

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	1997	1996	1995	1994	1993
Provision for credit losses pertaining to:					
Loans	184	190	327	137	152
Guarantees	52	12	14	3	4
Insurance claims	59	68	49	40	25
Total provision for credit losses	$295	$270	$390	$180	$181

The Corporation assesses the carrying value of its loan assets on an annual basis and determines the appropriate allowance necessary to maintain its financial integrity. During 1997, a charge for the provision for losses on loans was made to the income statement in the amount of $184 million (1996 – $190 million). Of the $184 million, approximately $52 million was the result of management's enhancement of the methodology for estimating the general allowance for loan losses, which was implemented during the year. In addition, $73 million was due to the recent evidence of impairment in Southeast Asia. The balance was a result of the significant growth in the commercial loans portfolio. The strong continuing growth in the commercial portfolio and the magnitude of the provisions for credit losses are evidence of the Corporation's continuing commitment to prudent asset management policies.

The Corporation assesses the loan guarantees on the same basis as direct loans. During 1997, a charge for the provision for losses on loan guarantees was made to the income statement in the amount of $52 million (1996 – $12 million). Of the $52 million, $22 million was due to the downgrade of Turkey and $18 million was a result of the significant growth in commercial loan guarantees. An additional $10 million resulted from the enhancement to the methodology for determining the allowance for loan guarantees.

During the year, there was a $59 million charge to the income statement for the provision for insurance claims. The decrease in current insurance claim provisioning levels was the result of the year-end actuarial allowance valuation.

ADMINISTRATIVE EXPENSES

Net administrative expenses for 1997 totalled $69 million, up 15% from the prior year. The increase in administrative expenses was primarily the result of hiring additional staff during the year to handle the growth in business volumes. This augmentation of the staff complement translated into increased expenditures for salaries, benefits and accommodation costs for 1997.

Canada Account Transactions

Under the *Export Development Act,* the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain transactions of a financial nature to support and develop export trade. All monies required by the Corporation to discharge its obligations under these transactions must be paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund. The Corporation must remit all receipts and recoveries in respect of these transactions to the Government of Canada, less amounts which it is authorized to retain to meet expenses and overhead related to these transactions. These transactions, and the legislative authorities which underlie them, have come to be known collectively as the "Canada Account". Accounts for the program are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada. Following are the financial highlights *for the 12 months to December 31, 1997*:

- Canada Account business volume for this period was $1,901 million, of which $1,584 million was for direct consensus terms financing and $317 million pertained to insurance and related guarantees provided.

- The Corporation administered total assets of $2,941 million, consisting of $2,900 million from the lending program and $41 million from the insurance program. The loan assets were mainly denominated in U.S. dollars (92%) followed by Canadian dollars (7%) and European currency units (1%).

- Actual disbursements amounted to $121 million, including $78 million for loans signed under consensus terms, $37 million for concessional loans, and $6 million for claims paid under the insurance program. Canada Account remitted to the Consolidated Revenue Fund $292 million, of which interest and fee revenue totalled $96 million, while the repayment of loan advances amounted to $196 million and there were no recoveries on claims.

- The Corporation retained $19 million from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

Planning Comparison and Prospects for 1998

COMPARISON TO 1997 CORPORATE PLAN

Business volume for 1997 reached a record $28.6 billion, an increase of 30% over the 1996 level of $22.0 billion and surpassing the 1997 planned volume of $26.0 billion. This increase over Plan was primarily due to the short-term insurance volume of $20.3 billion exceeding Plan by $1.5 billion.

The impact on the Corporation's balance sheet of the increased activity over the last two years in the loans signings volume was substantial, generating a 28% increase in net loans receivable over Plan and a 26% increase in loans payable over Plan. However, there is still a significant portion of the signings to be disbursed in future years.

The table below shows the comparison of the 1997 income statement with the Plan. The 1997 net income of $128 million fell short of the planned earnings of $226 million, primarily because most of the impact of debt relief totaling $141 million expected during the year did not materialize, as the country concerned did not meet IMF criteria for Paris Club debt relief.

PROSPECTS FOR 1998

In 1998, increases in business volumes are anticipated, although not to the same degree as in recent years, with planned volume of $32.7 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 1998 and the large amount of undisbursed loans with respect to 1997 signings. The loans allowance is expected to increase to reflect these higher disbursements which are largely taking place in the commercial sector and have a higher risk profile. In summary, planned total assets in 1998 will increase to $13.2 billion from $11.8 billion in 1997, liabilities will increase to $11.5 billion from $10.3 billion and as a result, shareholder's equity will increase to $1.7 billion.

As can be seen from the table, for 1998, the major planned income variances from the 1997 actual results are represented by higher net interest income due to the increased loans and liquidity portfolios. This will be partially offset by increased provisions for credit losses and administrative expenses. Provisions will increase to reflect the additional credit risks resulting from the expanding loans portfolio, while administrative expenses are expected to increase in 1998, due primarily to a larger workforce and investments in technology, which will result in higher depreciation costs.

($ in millions)	1998 Corporate Plan	1997 Actual Results	1997 Corporate Plan
Interest income			
Loan interest earned	906	752	664
Investment interest earned	123	92	118
	1,029	844	782
Interest expense	596	481	440
Net interest income	433	363	342
Premium and fee income			
Insurance premiums and guarantee fees	104	99	100
Other fees	32	30	53
	136	129	153
Provision for credit losses	334	295	203
Income after provision for credit losses	235	197	292
Administrative expenses	81	69	66
Net income	$154	$128	$226

Risk Management

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health.

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

In order to better understand and respond to the needs of the Canadian exporter, the Corporation is organized into business teams along industry sectors. Significant potential transactions with respect to credit risk and structure are reviewed by the Risk Management Office prior to authorization. Country limits are established and reviewed continually by the International Markets and Economics departments to take into consideration any changes within the world environment. The Corporation is continuously reviewing its processes and systems in order to improve the administration and overall control of all agreements associated with financing and insurance transactions. Counterparty exposure and location are monitored on a regular basis for credit risk.

CONCENTRATION OF EXPOSURE

The following table reflects the major concentrations of total commercial and sovereign exposure in the country where the ultimate risk resided for all operations at the end of 1997.

The following countries accounted for 64% of the Corporation's total exposure:

			Contingent liabilities		* Investments & derivative		
Market	Gross loans receivable	Undisbursed commitment	Short-term	Medium-term	financial instruments	1997 Exposure	
($ in millions)						$	%
U.S.	2,210	1,938	2,317	62	150	6,677	22.4
Canada	609**	1,385**	975	443***	1,365	4,777	16.0
China	1,155	923	148	111	-	2,337	7.8
United Kingdom	344	740	128	240	206	1,658	5.6
Indonesia	560	389	32	161	-	1,142	3.8
Mexico	609	94	297	20	-	1,020	3.4
Peru	633	-	13	66	-	712	2.4
Brazil	486	4	176	34	-	700	2.4
Other	5,767	1,009	1,614	1,887	512	10,789	36.2
Total	$12,373	$6,482	$5,700	$3,024	$2,233	$29,812	100.0%

**Investments include amounts represented by cash, marketable securities and investments, as shown on the Balance Sheet.*

***Includes the impact of one transaction signed in 1997 for $1,500 million with recourse to the Government of Canada in the event of default.*

****Includes $425 million of surety bond insurance. A total of 90% of the exports insured in the surety bond program were to the United States.*

LOANS PORTFOLIO

The loans portfolio experienced rapid growth in 1997, with gross loans receivable increasing by 18% or $1,869 million over the 1996 level.

Gross loans receivable increased by $1,869 million from the 1996 level of $10,504 million to $12,373 million at December 31, 1997. Most of this increase was fuelled by the growth of the loans portfolio, with disbursements exceeding repayments by $1,461 million. The remaining increase was the result of foreign exchange translation and the capitalization of interest. The Corporation disbursed $3,321 million in 1997, surpassing the 1996 record of $2,463 million by $858 million, an increase of 35%. For 1997, loan repayments amounted to $1,860 million (1996 – $1,980 million). Included in the repayments are amounts received from the Government of Canada for debt relief, mainly relating to principal, of $17 million (1996 – $101 million).

LOAN ASSET QUALITY

Commercial loans now comprise 50% of the Corporation's performing gross loans receivable, up from 43% in 1996, reflecting the continuing movement in the portfolio from sovereign to commercial assets.

Performing and Impaired Loans
($ in millions)

The performing gross loans receivable grew significantly in 1997, moving to $10,588 million from the 1996 balance of $8,585 million. The increase was due to the continued high growth in commercial loans from $3,652 million to $5,271 million. The sovereign performing portfolio increased only slightly from $4,933 million to $5,317 million. These changes highlight the movement in the Corporation's loans portfolio from sovereign to commercial loan assets.

During 1997, impaired loans, as a percentage of total gross loans receivable, continued to decrease, from 18% to 14%. This was the result of the reclassification of loans totaling $142 million in seven countries (Bulgaria, Costa Rica, Gabon, Guatemala, Honduras, Kenya and Panama) from impaired to performing, as well as the rapid growth in the total gross loans receivable. Loans receivable of $18 million were written off in 1997.

IMPAIRED LOANS

Cash received, including both principal and interest, from the impaired portfolio has been significant since 1993, averaging around 4% of the total portfolio.

The following cash flows pertain to sovereign debtors and represent to a large extent the long-term efforts of multilateral rescheduling arrangements through the Paris Club:

($ in millions)	**1997**	1996	1995	1994	1993
Average impaired gross loans receivable	**1,869**	1,919	2,247	2,862	2,948
Impaired receipts (principal and interest)	**86**	89	182	115	91
Cash flow as a percentage of average loans	**4.6%**	4.6%	8.1%	4.0%	3.1%

Payments received from the Government of Canada for debt relief for impaired loans were $17 million in 1997. These payments related to impaired loans in Côte d'Ivoire ($7 million), Guyana ($5 million) and Congo ($5 million). These amounts are not included as receipts in the above chart.

The largest receipts for impaired loans, including contractual principal and interest from sovereign borrowers, were as noted:

($ in millions)	1997		1996
Peru	32	Peru	29
Venezuela	11	Kenya	12
Cameroon	10	Gabon	11
Gabon	8	Cameroon	10
Russia	6	Bulgaria	6
Other	19	Other	21
Total	$86	Total	$89

LOAN ASSET RISK CONCENTRATION

Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

($ in millions)		1997			1996
	$	%		$	%
China	1,155	22	China	1,113	23
Indonesia	457	9	Algeria	435	9
Algeria	448	8	Indonesia	400	8
Venezuela	372	7	Mexico	337	7
Brazil	290	5	Brazil	336	7
Other	2,595	49	Other	2,312	46
Total	$5,317	100%	Total	$4,933	100%

Generally, the level of concentration has not increased for sovereign counterparties, but risk concentration becomes more significant when the sum of loans receivable and undisbursed loan commitments, referred to as exposure, is taken into consideration. The concentration in Canada now represents 43% of the total undisbursed sovereign loan commitments, as a result of the signing in 1997 of a loan agreement for $1,500 million, for which the Government of Canada will provide recourse to the Corporation in the event of a loan default.

The largest undisbursed loan commitments by sovereign borrowers are as follows:

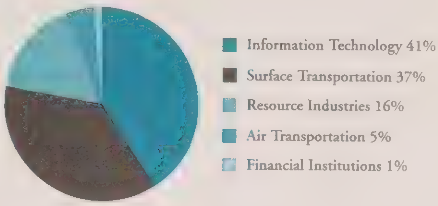
($ in millions)		1997			1996
	$	%		$	%
Canada	1,272	43	China	386	37
China	923	31	Turkey	188	18
Venezuela	187	6	Venezuela	151	14
Algeria	122	4	Indonesia	74	7
Turkey	112	4	Israel	51	5
Other	330	12	Other	199	19
Total	$2,946	100%	Total	$1,049	100%

Commercial Loans

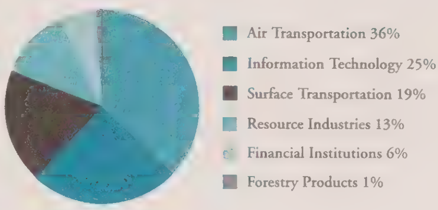
Risk concentration in the commercial loans portfolio moved toward the information technology sector in 1997, with the sector now representing 31% of total commercial loan exposure.

The five counterparties comprising the Corporation's largest commercial loan balances collectively represent 29% of the total performing gross loans receivable, a decline from the 1996 level of 39%. The largest commercial loan exposure (including loans receivable and undisbursed loan commitments) to a single counterparty, a company from the surface transportation sector in the United States, is $1,651 million. The information technology sector grew to represent the largest industry risk concentration, now composing 41% of the undisbursed commercial loan commitments of $3,536 million, up from only 15% in 1996. The loans receivable in the information technology sector also increased, from 18% of performing commercial loans receivable in 1996 to 25% in 1997.

Commercial Undisbursed Commitments



Commercial Performing Loans

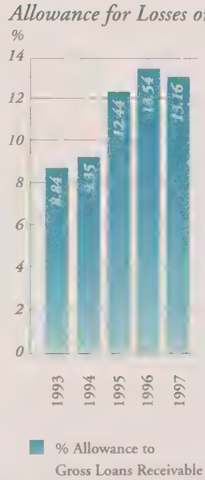


ALLOWANCE FOR LOSSES ON LOANS

EDC continues its commitment to prudent risk management by maintaining a conservative level of allowances for loan losses.

During 1997, the allowance for losses on loans increased by $205 million or 14% to $1,628 million from the December 31, 1996 balance of $1,423 million. The 1997 charge to the income statement for the loan loss provision was $184 million (1996 – $190 million). The Corporation improved its loan loss allowance methodology, and as a result of this enhancement, the total allowance for loan losses increased by $52 million. The allowance as a percentage of gross loans receivable decreased slightly to 13.2% compared to 13.5% in 1996.

Allowance for Losses on Loans



The Corporation categorizes its performing commercial and sovereign loans using a rating system of "1" to "4" (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. For impaired loans, a specific allowance is determined based on discounted projected cash flows.

Sovereign

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to classify unrated countries relative to those that are rated. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

The 1997 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)	1997			1996		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
1 High investment grade, ≥A3	1	135	1	4	236	2
2 Medium investment grade, = Baa1 to Baa3	31	1,688	2	76	1,883	4
3 Below investment grade, = Ba1 to Ba3	171	1,713	10	126	1,262	10
4 Speculative grade, <Ba3	337	1,530	22	133	1,328	10
5 Impaired	390	851	46	534	1,013	53
Sub-total	930	5,917	16	873	5,722	15
General allowance risk concentration	-	-		117		
Total	$930	$5,917	16%	$990	$5,722	17%

**Moody's long-term rating.*

***Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The sovereign allowance decreased by $60 million from the 1996 level of $990 million.

A decline of $144 million in the portion of the allowance relating to impaired sovereign loans was due to a number of contributing factors. The estimated future cash flows and the non-accrued capitalized interest on impaired loans increased, both of which caused a reduction to the required allowance. In addition, loans in the following countries were returned to performing status: Bulgaria, Costa Rica, Gabon, Guatemala, Honduras, Kenya and Panama. Since cash receipts from impaired borrowers and the Government of Canada are applied to the book value of these loans, this reduction in book value translates into a reduction in the allowance.

The sovereign allowance on performing loans increased by $84 million as a result of credit migration to speculative grade of some countries in Southeast Asia. This increase was slightly offset by the upgrade, by external credit-rating agencies, of Argentina. Approximately $117 million of the 1996 risk concentration was reclassified to the sovereign general allowance.

The following table outlines the effect of these changes on the general allowance for losses on sovereign loans:

($ in millions)	1997
Balance at beginning of year	990
Change in allowance rates	3
Credit migration	55
Portfolio growth	9
Revaluation of impaired	(144)
Foreign exchange	17
Balance at end of year	$930

Commercial

The Corporation undertakes loan reviews to assess the financial condition of the borrowers or guarantors and their ability to meet their obligations to EDC. When available, the Corporation utilizes external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When these ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate classification for a particular loan. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool. The rates are then applied to exposure to derive a general allowance for performing loans.

The 1997 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)	1997			1996		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
1 High investment grade, ≥A3	30	1,704	2	60	1,831	3
2 Medium investment grade, = Baa1 to Baa3	31	856	4	18	296	6
3 Below investment grade, = Ba1 to Ba3	195	1,390	14	82	690	12
4 Speculative grade, <Ba3	344	1,321	26	99	835	12
5 Impaired	98	103	95	127	132	96
Sub-total	698	5,374	13	386	3,784	10
General allowance risk concentration	-	-		47		
Total	$698	$5,374	13%	$433	$3,784	11%

**Moody's long-term rating.*
***Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The commercial allowance rose by $265 million to $698 million from $433 million a year earlier. The commercial allowance for performing loans increased by $294 million as a result of the significant increase in the performing portfolio.

Loans classified as impaired decreased by $29 million, and performing commercial exposure increased by $1,619 million, primarily in the below investment and speculative grades. The general allowance increased in line with the increases in exposure and risk rating of that exposure.

The following table outlines the changes to the general allowance for losses on commercial loans:

($ in millions)	1997
Balance at beginning of year	433
Change in allowance rates	49
Credit migration	9
Portfolio growth	215
Revaluation of impaired	(11)
Write-off	(18)
Foreign exchange	21
Balance at end of year	$698

LOAN COMMITMENTS

The following table profiles the committed undisbursed loan balances by credit-rating grade:

($ in millions)						
Provision category*	Sovereign	%	Commercial	%	Total	%
1 High investment grade, ≥A3	1,418	48	1,334	38	2,752	42
2 Medium investment grade, = Baa1 to Baa3	860	29	210	6	1,070	17
3 Below investment grade, = Ba1 to Ba3	199	7	619	18	818	13
4 Speculative grade, <Ba3	469	16	1,364	38	1,833	28
5 Impaired	-	-	9	0	9	0
Total	$2,946	100%	$3,536	100%	$6,482	100%

**Moody's long-term rating.*

The largest balance of undisbursed loans is in the high investment grade category, comprising $2,752 million or 42% of the total undisbursed loan commitments. Included in this category are undisbursed commitments of $1,351 million for which EDC has recourse to the Government of Canada in the event of default. The next largest provision category in the portfolio is the speculative grade (<Ba3), making up 28% of the total undisbursed commitments. The Corporation has 41% of its undisbursed commitments in below investment grade credit risk categories. This large concentration in the below investment grade categories is the result of several factors, including the significant growth in the commercial portfolio and, in particular, growth in limited recourse transactions in the information technology and resource sectors.

INSURANCE PORTFOLIO

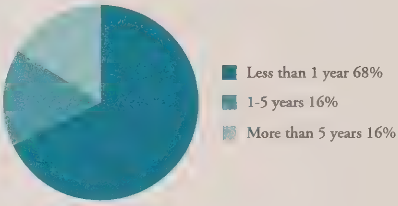
CONTINGENT LIABILITIES

The Corporation's contingent liabilities increased by 17% to $8,724 million in 1997.

Insurance policies in force and guarantees increased during 1997 to $8,724 million from the 1996 level of $7,432 million, an increment of $1,292 million, or 17%. The medium-term programs increased by $673 million, or 29%, from the 1996 level of $2,351 million, and the short-term programs increased by $619 million, or 12%, from the 1996 level of $5,081 million.

At December 31, 1997, there was a slight shift toward longer policy terms when compared to contingent liabilities outstanding at December 31, 1996. At the end of 1997, policies with terms of less than one year comprise 68% of the total contingent liabilities, whereas at the end of 1996, policies with terms of less than one year accounted for 71% of the portfolio.

Contingent Liabilities by Policy Term



Short-Term Program

Size Concentration

During 1997, the short-term program supported 3,399 customers. In terms of total declared volume, the top five customers represented 22% of the total 1997 declared volumes (1996 – 17%). The number of policyholders with declared volume of over $10 million per year has been steadily increasing over the last several years. Risk concentration has been growing in the short-term portfolio where large (over $10 million) buyers now account for more than 28% of the total authorizations. This risk has been taken into account in the year-end actuarial claims valuation.

The following table shows the number of buyers supported, classified by exposure size within the short-term portfolio:

($ in thousands)	1997
$ Value of exposure	Number of buyers
1-500	29,909
501-2,000	3,270
2,001-5,000	813
5,001-10,000	290
10,001 and over	208
Total	34,490

Country Concentration

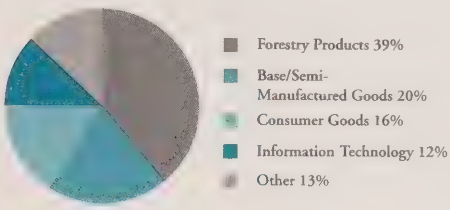
The top five countries represent $4,097 million, or 72% of the total short-term contingent liability of $5,700 million. The level of concentration has increased slightly from the 1996 level of 70%. The country with the largest concentration remains the United States, representing 41% of all short-term liabilities outstanding. Canada remains in second place due to the increasing use of domestic insurance by exporting companies. Domestic insurance now represents almost 15% of the total short-term insurance volume.

The largest concentrations within the short-term program are in the following countries:

($ in millions)	1997			1996	
	$	%		$	%
U.S.	2,317	41	U.S.	1,580	31
Canada	975	17	Canada	612	12
Japan	332	6	Brazil	585	11
Mexico	297	5	Mexico	391	8
Brazil	176	3	Iran	390	8
Other	1,603	28	Other	1,523	30
Total	$5,700	100%	Total	$5,081	100%

The Corporation rates country risk on a scale of "1" to "5" with "1" being the lowest risk and "5" being the highest risk. The comparative spread of risk in terms of country risk classification within the short-term contingent liabilities has shifted to lower-risk countries relative to 1996 levels. The total exposure within category "1" and "2" countries has grown by $1,442 million and represents 84% of the total short-term liability (1996 – 66%). This shift is a result of significant growth in coverage in both the United States and Canada combined with decreased exposures in two higher-risk markets.

Short-Term Contingent Liabilities



Industry Concentration

The overall percentage concentration by industry sector/business team has remained relatively unchanged, with a 4% increase in the forestry sector when compared to the 1996 concentrations.

Medium-Term Insurance Program and Guarantees

Size Concentration

During 1997, 308 customers were supported in the medium-term program (1996 – 289). The top five customers represented 37% of the 1997 medium-term insurance policies and guarantees in force (1996 – 35%). In terms of policy size, the five largest policies and loan guarantees in force as at December 31, 1997 represent 25% (1996 – 28%) of the total medium-term policies and guarantees in force.

Country Concentration

As at December 31, 1997, the medium-term liability portfolio comprises 1,265 transactions in 104 countries (1996 – 1,049 transactions in 92 countries), with an average per risk exposure of $2 million (1996 – $2 million).

The largest contingent liabilities in terms of ultimate risk within the medium-term portfolio are in the following countries:

($ in millions)	1997			1996	
	$	%		$	%
Canada	443	15	Canada	312	13
Turkey	254	8	Colombia	290	12
Argentina	246	8	Turkey	246	11
United Kingdom	240	8	Argentina	176	8
Colombia	215	7	United Kingdom	142	6
Other	1,626	54	Other	1,185	50
Total	$3,024	100%	Total	$2,351	100%

The country with the largest concentration in terms of contingent liability is Canada. Most of this amount ($425 million) represents surety bond insurance (1996 – $295 million), 90% of which is to support exports to the United States (1996 – 88%). Exposure in Turkey and the United Kingdom represents guarantees to support loan agreements signed with these countries. The five countries with the largest contingent liabilities represent 46% of the total medium-term contingent liabilities (1996 – 50%).

In terms of country risk concentration, there was an improvement in country risk quality within the medium-term contingent liability as at December 31, 1997, compared to December 31, 1996. The aggregate concentration within the lower-risk countries (defined as "1" and "2") increased to 53% from the 1996 level of 44%.

Concentration by Program

Program Concentration

The program with the largest increase in contingent liability during 1997 was the specific transaction program. Specific transaction exposure has grown from $322 million in 1996 to $508 million in 1997. Exposure as a percentage of overall medium-term contingent liabilities in all other medium-term insurance programs remained relatively unchanged.

Industry Concentration

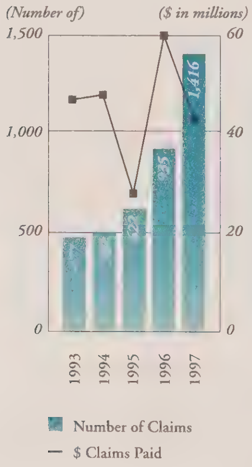
Within the medium-term programs, there was an increased concentration in the transportation sector from 12% in 1996 to 23% in 1997 and a decrease in the engineering and professional services sector from 44% in 1996 to 32% in 1997. The overall levels of concentration in all other industry sectors remained relatively unchanged.

CLAIMS EXPERIENCE

($ in millions)	**1997**	1996
Claims paid	**43**	60
Claims recovered	**16**	11
Net claims	**$27**	$49

In 1997, the Corporation paid 1,416 claims for a total of $43 million and recovered $16 million. During the same period in 1996, the Corporation paid 935 claims for a total of $60 million and recovered $11 million.

Claims Paid



There were 1,373 default and insolvency claims paid totaling $41 million in 1997 compared to 873 claims paid totaling $36 million in the prior year, an increase of 11% in claim payments. Within this category, 88% of the claim payments were paid on behalf of customers' losses in the United States ($25 million), Canada ($7 million), Mexico ($2 million) and France ($2 million).

In 1997, there were no claim payments made for transfer risk, whereas in 1996, $20 million in claim payments was made for transfer risk on behalf of customers' losses in Cuba.

From a business team perspective, 37% of the total claims paid were in the Consumer Goods Team (1996 – 21%) followed by the Information Technologies Team with 14% (1996 – 5%). In 1997, claims totaling $316,000 were paid in the Financial Institutions Team compared to $20 million in 1996.

As at December 31, 1997, the Corporation has $119 million in claims paid and outstanding to 72 countries (1996 – $100 million to 52 countries), with estimated recoveries of $28 million (1996 – $25 million).

ALLOWANCE FOR CLAIMS ON INSURANCE AND GUARANTEES

The total allowance for claims as a percentage of contingent liabilities has remained relatively stable over the last five years.

As at December 31, 1997, the allowance for claims on insurance and guarantees is $336 million, an increase of $96 million or 40% over the 1996 allowance of $240 million. The increase is primarily attributable to the continued growth in the short-term insurance portfolio as well as an increase in the loan guarantee allowance. During 1997, $111 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. Charges to the allowance of $24 million due to write-downs of the recoverable insurance claims account were offset by an increase of $9 million due to a foreign exchange fluctuation.

Of the $24 million in write-downs, the largest concentration was related to claims paid and outstanding on behalf of customers' losses in the United States ($18 million). All write-downs were in the short-term program.

The Corporation's contingent liability has increased by 134% over the last five years from $3,725 million in 1992 to $8,724 million at the end of 1997. The allowance for claims on insurance and guarantees as a percentage of total contingent liabilities has increased from 2.7% to 3.9% over the same time frame. This increase in percentage is largely the result of an increase in the loan guarantee allowance.

TREASURY CREDIT RISK

Treasury credit risk is the credit risk associated with EDC's holdings of interest-bearing deposits, marketable securities, investments and derivative financial instruments. For interest-bearing deposits, marketable securities and investments, the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. The Corporation's risk management guidelines limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded, and in such cases management will determine appropriate action. EDC is currently within the limits established by its risk management guidelines.

The following table provides a breakdown, by credit rating, of EDC's Treasury credit risk exposure:

($ in millions)

	Remaining term to maturity				
Credit rating*	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Aaa	141	125	186	12	464
Aa1	149	32	28	116	325
Aa2	572	126	30	204	932
Aa3	132	29	42	26	229
A1	120	63	15	-	198
A2	75	10	-	-	85
Total	$1,189	$385	$301	$358	$2,233

**Moody's long-term rating.*

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. The portfolios are fixed rate, floating rate and investments. These portfolios are predominantly in Canadian and U.S. dollars.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets daily and the Corporation's Finance Committee meets weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to the Audit Committee of the Board and to the Board of Directors.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities and/or interest rate resets between assets and liabilities. Currently, all portfolios are in compliance with the Corporation's risk management guidelines.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis. Currently, the exposure to foreign exchange risk is within EDC's risk management guidelines.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and controlled. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC will continue to improve analytical techniques, information systems and reporting, to enhance the evaluation and control of risk. The Treasury Risk Management Policy will be reviewed annually to reflect this improvement effort. In 1998, EDC will implement a Performance Management Policy. Performance will be evaluated using benchmarks agreed to by management and the Audit Committee of the Board.

EDC endeavours to match the average term of assets and liabilities on a portfolio basis. The following table provides a breakdown of EDC's gross assets into fixed rate, floating rate and investment portfolios:

($ in millions)	Total (CAD equiv.)	%	Canadian dollars	U.S. dollars	Other currencies (CAD equiv.)
Investments	1,813	*13*	1,127	470	14
Floating rate portfolio	6,910	*49*	954	3,620	783
Fixed rate portfolio	5,463	*38*	221	3,616	74

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities to manage the risk profile of the Corporation.

FUNDING

Loans payable increased by 23% in 1997 to $9.6 billion. This increase was in response to the growth of EDC's loan asset portfolio and was accomplished by the issuance of structured floating rate debt.

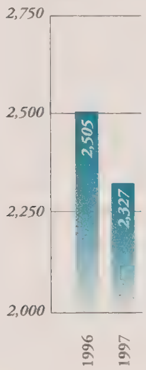
In accordance with the *Export Development Act* and the *Financial Administration Act*, EDC funds its capital requirements in domestic and international capital markets through issuance of bonds, debentures, notes and other evidence of indebtedness. EDC attempts to minimize the cost of borrowing while prudently managing market risks (interest rate and foreign exchange) and Treasury credit risks.

EDC, as an agent of Her Majesty in the right of Canada, carries the full faith and credit of the Government of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

EDC has the following credit ratings:

	Domestic		Foreign currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa2	P1
Standard & Poors	AAA	A1+	AA+	A1+
Japan Credit Rating Agency	AAA	-	AAA	-

Fixed Rate Payables
($ in millions)



Fixed Rate Liabilities

EDC's fixed rate liability portfolio decreased by $178 million from the prior year. This decrease was caused by fixed rate bonds that matured during 1997. The Corporation did not issue any net fixed rate bonds in 1997. All fixed rate borrowings for the year were swapped into floating rate debt.

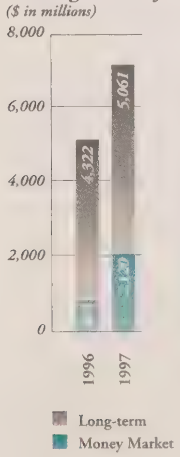
During 1997, the interest expense related to fixed rate issues amounted to $202 million (1996 – $174 million).

Floating Rate Liabilities

EDC's floating rate debt includes both short-term (money market) and long-term debt.

Money market liabilities primarily consist of commercial paper, which the Corporation raises in both North American and European markets. The European commercial paper program launched in 1997 replaced EDC's registered claim borrowing program. The short-term floating rate portfolio increased by 149% from the previous year to $2.120 million. This increase resulted from growth in loan asset balances.

Floating Rate Payables
($ in millions)



The long-term floating rate debt consists of liabilities whose rate resets on a regular, recurring basis. A large proportion of the long-term floating rate issues are synthetically created from fixed rate debt issues by using interest and/or currency swaps. During 1997, EDC issued $1,730 million in new, long-term floating debt, most of which was structured product. EDC bought back $553 million of long-term floating rate debt in 1997. These buybacks were undertaken to support EDC's investor relations, and the amounts bought back were refinanced with new issues. Gains or losses on buybacks are generally being amortized over the life of the refinancing. Overall, the long-term floating rate liabilities increased 17% from the previous year to $5,061 million. Similar to the short-term liabilities, the increase resulted from larger loans receivable balances.

The expense related to money market borrowings was $53 million (1996 – $52 million), and the long-term floating rate borrowings had an expense of $226 million (1996 – $211 million).

Capitalization and Allowances

The gross assets of the Corporation are $14.6 billion (1996 – $12.2 billion), which are supported by capitalization and allowances of $3.5 billion (1996 – $3.1 billion). At this level of capitalization, 24% of assets do not require external debt financing (1996 – 25%). Non-accrued capitalized interest is not included in this calculation due to the uncertainty of the timing of these cashflows.

The following table shows the capitalization of EDC over the last five years:

($ in millions)	1997	1996	1995	1994	1993
Shareholder's equity:					
Capital	983	983	851	813	788
Retained earnings	562	434	322	278	107
Sub-total	1,545	1,417	1,173	1,091	895
Allowances	1,984	1,683	1,457	1,097	875
Total capitalization and allowances	3,529	3,100	2,630	2,188	1,770
Non-accrued capitalized interest (NACI)	1,082	998	927	929	843
Total capitalization and allowances & NACI	$4,611	$4,098	$3,557	$3,117	$2,613

DERIVATIVES

EDC utilizes a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures and options.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Treasury Risk Management group formally reviews EDC derivative financial instrument deals at the time of inception, and on an ongoing basis, to provide an independent verification on the valuation of deal structures and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Risk Management Department to the Senior Vice-President and Treasurer and the Executive Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Treasury Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low-cost floating rate, U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than investing directly in a three-month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three-month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

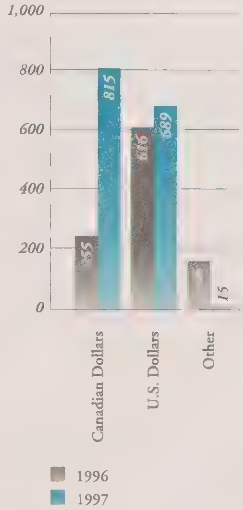
Liquidity risk is the risk that funds will not be available to meet the Corporation's obligations.

EDC has guidelines to ensure that sufficient liquidity is retained to meet operating requirements and to maintain stability in short-term borrowing programs. Currently, EDC is in compliance with these guidelines. In the course of its normal activities, EDC's commercial paper programs provide the Corporation with the necessary liquidity to meet its cash requirements on a daily basis. EDC also holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. Finally, EDC is establishing confirmed credit lines with highly rated financial institutions to be used as a secondary source of liquidity. These credit lines will be in place early in 1998.

CASH AND MARKETABLE SECURITIES

Cash and marketable securities increased by 46% in 1997, to $1.5 billion, as a result of higher liquidity requirements to support EDC's increased business.

Cash and Marketable Securities
(CAD$ equiv. in millions)



The Corporation holds marketable securities and cash in the form of interest bearing deposits. It is the policy of EDC that corporate cash holdings be invested in a prudent manner. The investment of corporate cash holdings is governed by the *Export Development Act*, the *Financial Administration Act* and the Corporation's Investment Authorities approved by the Minister of Finance.

The Corporation maintains cash and marketable securities in a number of currencies to ensure that it is able to meet its obligations as they arise. As at the end of 1997, cash and marketable securities totaled $1,519 million (1996 – $1,037 million), representing an increase of $482 million from the previous year. The implementation of a new investment strategy that was focused on increasing the Canadian dollar portfolio contributed significantly to this increase. The U.S. dollar portfolio also increased from $616 million in 1996 to $689 million in 1997, while holdings in other currencies decreased by $151 million to $15 million (1996 – $166 million). Other currencies in which investments and/or cash deposits are held are Deutsche marks, British pounds, Japanese yen, Australian dollars, Dutch gilders, French francs, Swiss francs and European currency units.

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

YEAR 2000

The historical practice in the computer industry has been to code date references with only two digits. The result is often referred to as a "time bomb" set to go off at the turn of the century. When the century rollover occurs, dates will contain the two-digit year "00". Many computer programs, all kinds of computer hardware and anything that operates using a computer "micro-chip" could potentially fail or produce incorrect results when trying to interpret this value.

EDC is well aware of the potential critical effects surrounding Year 2000 non-compliancy, and in 1996, the company began a corporate-wide initiative to survey all of its computer systems, processes and other technology for compliancy. EDC is striving to ensure that the Year 2000 problem does not affect the company's business, so that EDC in turn does not jeopardize service to customers. The target date for becoming compliant is the end of 1998. This would allow for one full year to continue to test and verify that all corporate systems will operate reliably. Activities supporting this project are under way throughout the Corporation, and EDC is confident that its compliancy program will permit an orderly transition through the year 2000.

FINANCIAL REPORTING RESPONSIBILITY

The Consolidated Financial Statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these Consolidated Financial Statements are management's responsibility. The Consolidated Financial Statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the Consolidated Financial Statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

The Board of Directors of EDC is responsible for all business undertaken by the Corporation. Contracts which, in the opinion of the Board of Directors, involve risks for a term or an amount in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Governor General in Council where the Minister considers them to be in the national interest. The Board of Directors has the predominant role in the management of this program and is solely responsible for its administration. Funds required for such contracts are paid to the Corporation by Canada, and funds recovered are remitted to Canada, net of amounts withheld to cover related administrative expenses. Canada Account transactions are shown in Note 19 to the Corporation's Consolidated Financial Statements.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the Consolidated Financial Statements. His report is presented on the following page.

A. Ian Gillespie
President and
Chief Executive Officer

John Gagan
Vice-President and
Corporate Controller

AUDITOR'S REPORT

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of Export Development Corporation as at December 31, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly owned subsidiary.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 4, 1998

CONSOLIDATED BALANCE SHEET

as at December 31, 1997

($ in millions)	1997	1996
Assets		
CASH AND INVESTMENTS		
Cash and marketable securities (note 3)	1,519	1,037
Investments (note 4)	408	407
Accrued interest	21	15
	1,948	1,459
LOANS RECEIVABLE		
Net loans receivable (notes 5, 6 and 7)	9,663	8,083
Accrued interest and fees	168	139
	9,831	8,222
OTHER		
Recoverable insurance claims (note 10)	28	25
Other assets	45	35
	73	60
Total Assets	$11,852	$9,741
Liabilities and Shareholder's Equity		
LOANS PAYABLE (notes 12 and 13)		
Loans payable	9,556	7,735
Accrued interest	103	94
	9,659	7,829
OTHER LIABILITIES AND DEFERRED REVENUES		
Accounts payable	84	80
Deferred insurance premiums	17	11
Allowance for claims on insurance and guarantees (note 10)	336	240
Deferred loan revenues and other credits	211	164
	648	495
Loan Commitments and Insurance and Guarantees (notes 8 and 9)		
SHAREHOLDER'S EQUITY		
Share capital (note 14)	983	983
Retained earnings	562	434
	1,545	1,417
Total Liabilities and Shareholder's Equity	$11,852	$9,741

See accompanying notes.

Approved by the Board of Directors

W.R.C. Blundell
Director

A. Ian Gillespie
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1997

($ in millions)	1997	1996
INTEREST INCOME		
Loan interest earned	752	671
Investment interest earned	92	99
	844	770
Interest expense	481	437
Net interest income	363	333
PREMIUM AND FEE INCOME		
Insurance premiums and guarantee fees	99	92
Other fees	30	17
	129	109
PROVISION FOR CREDIT LOSSES (note 11)	295	270
Income after provision for credit losses	197	172
ADMINISTRATIVE EXPENSES	69	60
NET INCOME	128	112
RETAINED EARNINGS		
Beginning of year	434	322
End of year	$562	$434

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1997

($ in millions)	1997	1996
OPERATING ACTIVITIES		
Net income	128	112
Items not affecting cash		
Provision for credit losses	295	270
Net (increase)/decrease in accrued interest and fees	(25)	(38)
Net increase/(decrease) in deferred revenue	44	(10)
Other changes	(25)	(49)
Cash provided	417	285
LENDING ACTIVITIES		
Loan disbursements	(3,321)	(2,463)
Loan repayments	1,860	1,980
Items not affecting cash		
Interest rescheduled	(55)	(33)
Cash used	(1,516)	(516)
FINANCING ACTIVITIES		
Issue of long-term loans payable	1,730	1,775
Repayment of long-term loans payable	(1,409)	(1,530)
Increase/(decrease) in short-term loans payable	1,261	(161)
Issue of share capital	-	132
Increase in investments	(1)	(168)
Cash provided	1,581	48
Increase/(decrease) in cash and marketable securities	482	(183)
CASH AND MARKETABLE SECURITIES		
Beginning of year	1,037	1,220
End of year	$1,519	$1,037

See accompanying notes.

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969 by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was amended on June 10, 1993. The Corporation was created as an agent of Her Majesty in right of Canada for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed \$15 billion, an amount equal to 10 times the authorized capital of the Corporation. As at December 31, 1997, the position against this limit is \$11.5 billion (1996 – \$8.9 billion).

As an agent of Her Majesty in right of Canada, debt instruments issued by the Corporation carry the full faith and credit of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited Financial Statements. This limit for borrowing as at December 31, 1997 is \$21.3 billion (1996 – \$19.6 billion), against which borrowings amounted to \$9.6 billion (1996 – \$7.7 billion).

2. Summary of Significant Accounting Policies

Cash and Marketable Securities

Securities which are being held to maturity are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. Available for sale securities are carried at market value. The gains and losses arising from securities carried at market value are included in investment interest earned.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest earned until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada has fully compensated the Corporation for all amounts forgiven at the Paris Club, and these payments for impaired loans or loans previously classified as impaired are credited to the book value of the loans. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan fees, mainly exposure fees and administration fees, are normally amortized over the disbursement and repayment term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary to use accounting estimates. The most significant of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed in detail annually. However, actual loan losses and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur that render previous assumptions invalid and cause a material change to the accounting estimates.

The general allowance for loan losses is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the Recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for loan losses.

In 1997, EDC enhanced its methodology for estimating the allowance for losses on loans. See Note 7 for further discussion.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for loan losses. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio.

Recoverable Insurance Claims

Recoverable insurance claims payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for loans.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These contracts are carried on a cost basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related.

Translation of Foreign Currency

All assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Cash and Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or available for sale portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Available for sale securities are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)				1997	1996
	Remaining Term to Maturity				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Investment Portfolio					
Fixed rate securities	122	182	259	563	258
Swap contracts	(112)	(25)	-	(137)	(192)
Net fixed	10	157	259	426	66
Yield to maturity %	*5.27*	*5.95*	*6.13*	*6.04*	*6.88*
Floating rate securities	565	70	10	645	669
Swap contracts	123	27	-	150	192
Net floating	688	97	10	795	861
Yield to reset %				*5.23*	*4.84*
Total Investment Portfolio	698	254	269	1,221	927
Available for Sale Portfolio					
Fixed rate securities	-	-	-	-	17
Floating rate securities	298	-	-	298	93
Total Available for Sale Portfolio	298	-	-	298	110
Spot yield %				*4.43*	*4.64*
Value at purchase	*297*	-	-	*297*	*115*
Total Cash and Marketable Securities	$996	$254	$269	$1,519	$1,037

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the available for sale portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $102 million (1996 – $99 million) of cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by three Crown corporations: Ridley Terminals, Inc., Vancouver Port Corporation and the Royal Canadian Mint, totaling $306 million (1996 – $308 million). These Crown corporations are related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. These investments were made in the normal course of business, transacted at fair value, and are recorded at cost.

($ in millions)			1997	1996
	Amount	*Yield**	Term*	Amount
Fixed rate investments	306	7.40%	52 months	300
Floating rate investments	102	3.89%	1 month	107
Total	$408	-	-	$407

**Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity along with related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	1997					1996				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	1	10.45	7	0.94	8	6	8.96	1	1.24	7
1997	-	-	-	-	-	605	8.83	775	1.14	1,380
1998	681	9.03	1,046	1.87	1,727	548	9.17	506	1.67	1,054
1999	629	9.00	614	1.83	1,243	468	9.27	497	1.68	965
2000	523	9.01	618	1.89	1,141	418	9.21	393	1.77	811
2001	656	9.05	551	1.81	1,207	545	9.23	381	1.69	926
2002	508	8.78	452	1.73	960	370	9.09	276	1.47	646
2003-2007	1,438	8.39	1,422	1.30	2,860	1,038	8.62	813	0.61	1,851
2008 and beyond	844	8.46	598	0.71	1,442	477	8.99	468	0.46	945
Performing	5,280	8.56	5,308	1.58	10,588	4,475	8.92	4,110	1.24	8,585
Impaired (Note 6)	183		1,602		1,785	257	-	1,662	-	1,919
Gross loans receivable	$5,463		$6,910		$12,373	$4,732	-	$5,772	-	$10,504
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					831					774
Performing loans*					251					224
Loans receivable					11,291					9,506
Less: Allowance for losses on loans (Note 7)					1,628					1,423
Net Loans Receivable					$ 9,663					$ 8,083

****Represents the unamortized balance that accrued while the loan was impaired.***

At December 31, 1997, the floating rate performing gross loans receivable are yielding 7.26% (1996 – 6.52%) with an average term to reset of 99 days (1996 – 88 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	1997					1996				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
Sovereign	2,970	8.70	2,347	1.12	5,317	2,785	8.85	2,148	0.93	4,933
Commercial	2,310	8.45	2,961	1.92	5,271	1,690	8.99	1,962	1.63	3,652
Total	$5,280	8.56	$5,308	1.58	$10,588	$4,475	8.92	$4,110	1.24	$8,585

6. *Impaired Loans Receivable*

The Corporation has $1,785 million impaired gross loans receivable (1996 – $1,919 million) of which $1,682 million is sovereign (1996 – $1,787 million) and $103 million is commercial (1996 – $132 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	**1997**	1996
Balance at beginning of year	**1,919**	1,895
Loans classified as impaired	**-**	29
Loans reinstated to performing	**(142)**	-
Sale of impaired assets	**(31)**	-
Capitalized interest	**74**	78
Principal repayments	**(50)**	(55)
Compensation from the Government of Canada for debt relief	**(17)**	(26)
Foreign exchange	**32**	(2)
Balance at end of year	**$1,785**	$1,919

The largest concentrations of gross loans receivable for impaired loans are listed in the following table. Non-accrued interest represents contractually earned interest that has not been capitalized through rescheduling agreements.

($ in millions)			**1997**			1996
	Gross loans receivable	**Non-accrued capitalized interest***	**Non-accrued interest**	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest
Sovereign						
Peru	**632**	**424**	**6**	571	340	39
Cameroon	**386**	**151**	**42**	400	150	18
Côte d'Ivoire	**262**	**124**	**15**	252	111	5
Russia	**117**	**41**	**2**	112	31	4
Congo	**53**	**38**	**2**	55	35	2
Other	**232**	**53**	**136**	397	107	121
Sub-total	**1,682**	**831**	**203**	1,787	774	189
Commercial	**103**	**-**	**87**	132	-	71
Total Impaired	**$1,785**	**$831**	**$290**	$1,919	$774	$260

**Non-accrued capitalized interest is included in gross loans receivable.*

During 1997, payments from borrowers for impaired loans were $86 million (1996 – $89 million). These amounts were applied to the book value of the impaired loans and did not affect interest earned.

7. *Allowance for Losses on Loans*

The composition of the allowance for losses on loans is as follows:

($ in millions)			**1997**			1996
	Sovereign	**Commercial**	**Total**	Sovereign	Commercial	Total
Specific allowance for impaired loans	**390**	**98**	**488**	534	127	661
General allowance	**540**	**600**	**1,140**	456	306	762
Total	**$930**	**$698**	**$1,628**	$990	$433	$1,423

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows which are then discounted using rates inherent in agreements.

During the year, the Corporation enhanced its methodology for estimating the general allowance for loan losses. This enhancement is part of the continuing process to more accurately reflect the current economic conditions and their impact on credit migration. The methodology incorporates the historical default rates of corporate bond issuers as determined by external credit-rating agencies, and the Corporation's own severity of loss experience. The risk concentration component of the allowance for loan losses has been reclassified as a result of the improved methodology. These enhancements resulted in an increase of $52 million in the allowance for loan losses as at December 31, 1997.

The Corporation has significant geographic concentrations in below investment grade and speculative grade countries, as determined by external credit-rating agencies. Seven such countries represent $3,003 million or 28% of the Corporation's performing loans receivable. In addition, the Corporation has a single counterparty loan receivable of $721 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)	**1997**	1996
Balance at beginning of year	**1,423**	1,233
Provision for losses on loans	**184**	190
Interest reversal for impaired loans		
Write-off	**(18)**	(1)
Foreign exchange	**39**	1
Balance at end of year	**$1,628**	$1,423

8. Loan Commitments

The Corporation has undisbursed commitments of $6,482 million (1996 – $2,863 million). The Corporation expects to fund these undisbursed commitments near the time of their disbursement. Over the next two years, the Corporation expects to disburse 72% of the remaining undisbursed balances. The Corporation generally attempts to match debt maturities and currencies with those of its loan assets on a portfolio basis. Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars. In 1996, the Corporation was committed to disburse $223 million which had a fixed rate effective yield that was indeterminable and therefore was not included in the table.

($ in millions)	**1997**				1996			
	Fixed $	**Spot yield %**	**Floating $**	**Spread %**	Fixed $	Spot yield %	Floating $	Spread %
Sovereign	**2,385**	**7.98**	**561**	**2.44**	417	8.41	409	2.49
Commercial	**167**	**8.14**	**3,369**	**2.39**	75	9.72	1,739	1.14
Total	**$2,552**	**8.00**	**$3,930**	**2.40**	$492	8.61	$2,148	1.40

9. Contingent Liabilities

The Corporation has insurance policies in force and guarantees outstanding of $8,724 million (1996 – $7,432 million) which mature as follows:

($ in millions)	1997	1996
Short-term program	5,700	5,081
Medium-term program		
1997	-	370
1998	546	340
1999	467	295
2000	443	97
2001	379	395
2002	197	62
2003-2007	658	427
2008 and beyond	334	365
Total	$8,724	$7,432

The major concentrations by location of ultimate risk are as follows:

($ in millions)			1997				1996
	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	2,317	62	2,379	U.S.	1,580	38	1,618
Canada	975	443	1,418	Canada	612	312	924
U.K.	128	240	368	Brazil	585	19	604
Japan	332	1	333	Iran	390	60	450
Mexico	297	20	317	Mexico	391	14	405
Other	1,651	2,258	3,909	Other	1,523	1,908	3,431
Total	$5,700	$3,024	$8,724	Total	$5,081	$2,351	$7,432

Reinsurance of $78 million (1996 – $122 million) has been deducted from the insurance policies in force.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	1997	1996
Balance at beginning of year	25	20
Claims paid	43	60
Claims recovered	(16)	(11)
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange	-	(1)
Balance at end of year	$28	$25

Of the $43 million in claim payments made during 1997, 95% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)		1997			1996
	Claims paid	Claims recovered		Claims paid	Claims recovered
U.S.	25	5	Cuba	20	3
Canada	7	3	U.S.	16	3
Mexico	3	1	Canada	5	1
France	2	1	Brazil	4	-
China	1	-	Spain	4	-
Other	5	6	Other	11	4
Total	$43	$16	Total	$60	$11

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	1997	1996
Balance at beginning of year	240	204
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange	9	(1)
Balance at end of year	$336	$240

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	1997	1996
Provision for losses on loans	184	190
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Provision for Credit Losses	$295	$270

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables represent liabilities of the Corporation that are issued with maturities under one year. Long-term debt instruments are issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. The Corporation utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. Derivative contracts and structured notes are used to minimize the cost of capital and are also used for asset/liability management purposes.

Loans payable are comprised as follows:

($ in millions)		1997		1996
	Loans payable	Interest expense	Loans payable	Interest expense
Short-term payables	2,120	53	853	52
Long-term payables				
- due within current year	2,005		724	
- over one year	5,383	428	6,103	385
Sub-total	9,508	481	7,680	437
Plus: unamortized discounts and premiums	14		11	
deferrals	34		44	
Total Loans Payable	$9,556		$7,735	

Discounts and premiums are related to the issue of long-term debt and swaps. Deferrals include gains and losses incurred upon debt repurchases and swap unwinds.

Accrued interest reflects the corporate cash flow obligation. It can be broken down into its component parts as follows:

($ in millions)	1997	1996
Short-term	13	4
Long-term		
-Debt issued	313	229
-Swap contracts	(223)	(139)
Total Accrued Interest	$103	$ 94

The accrued interest for the above swap contracts is presented on a net basis.

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	**1997**	1996
Equity index linked	**502**	467
Dual currency	**923**	1,034
Step-up	**300**	209
Callable/extendible	**166**	78
Other	**171**	163
Total	**$2,062**	$1,951

The Corporation has executed swap contracts to remove market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has synthetically created floating rate debt. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by dealing with counterparties evaluated as creditworthy, through management limits to counterparties and other credit mitigation techniques. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Loans Payable Maturities

Loans payable and related notional swap amounts mature as follows:

($ in millions)				**1997**	1996
Year of maturity	**Issues**	**Swap contracts**	**Net**	***Yield* (%)***	Net
Fixed Rate Issues					
1997	-	-	-	-	270
1998	**1,928**	**(1,217)**	**711**	***6.88***	687
1999	**1,119**	**(333)**	**786**	***6.99***	753
2000	**1,319**	**(1,033)**	**286**	***8.74***	273
2001	**530**	**(530)**	-	-	-
2002	**720**	**(577)**	**143**	***7.81***	137
2003 to 2007	**988**	**(841)**	**147**	***8.75***	141
2008 and beyond	**314**	**(60)**	**254**	***8.31***	244
Sub-total	**6,918**	**(4,591)**	**2,327**	***8.29***	2,505
Floating Rate Issues					
1997	-	-	-		1,307
1998	**2,120**	**1,294**	**3,414**		1,159
1999	**78**	**396**	**474**		632
2000	**8**	**1,027**	**1,035**		520
2001	**71**	**518**	**589**		345
2002	-	**584**	**584**		441
2003 to 2007	**164**	**860**	**1,024**		771
2008 and beyond	-	**61**	**61**		-
Sub-total	**2,441**	**4,740**	**7,181**	***5.66***	5,175
Total	**$9,359**	**$149**	**$9,508**		$7,680

**Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1996 – 9.8 million). No shares were issued in 1997 (1996 – 1.3 million).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, the Corporation has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while sustaining prudent levels of risk.

The following chart shows where the Corporation has created synthetic debt and asset positions through such instruments and the resulting net foreign currency exposure (expressed in Canadian equivalent dollars).

($ in millions)	1997								1996	
	Assets			Liabilities						
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Exposure	Rate	Exposure	Rate
European Currency Units	29	(6)	23	-	-	-	23	1.5713	15	1.7219
British Pounds	244	-	244	(631)	403	(228)	16	2.3472	9	2.3454
Deutsche Marks	388	-	388	(413)	11	(402)	(14)	0.7944	(53)	0.8900
U.S. Dollars	8,690	406	9,096	(6,390)	(2,716)	(9,106)	(10)	1.4291	163	1.3696
Italian Lira	-	-	-	(163)	162	(1)	(1)	.000808	(2)	0.0009
Swiss Francs	-	-	-	-	-	-	-	0.9777	(1)	1.0232
Australian Dollars	13	(13)	-	(424)	424	-	-	0.9315	-	1.0886
Japanese Yen	5	(4)	1	(292)	291	(1)	-	0.01095	-	0.0118
New Zealand Dollars	-	-	-	(49)	49	-	-	0.8294	-	0.9690

"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.

The Corporation incurred a foreign exchange gain of $7.8 million in 1997 (1996 – gain of $11 million). This amount is included in interest expense.

16. Derivative Financial Instruments

The Treasury Division actively manages EDC's exposure to market risk through the use of derivative financial instruments held for non-trading purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest Rate Swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency Swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity Index Swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign Exchange Contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward Rate Agreements – a short-term contract between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there are always inherent risks of loss. These risks are classified as (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, or (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by dealing only with financial institutions having original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1996 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31, 1997 are listed below.

($ in millions)					1997	1996
	Remaining Term to Maturity					
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
Currency swaps	894	1,284	674	535	3,387	2,684
Interest rate swaps	1,133	433	500	550	2,616	2,514
Foreign exchange contracts	897	-	-	-	897	1,007
Total all swaps	$2,924	$1,717	$1,174	$1,085	$6,900	$6,205
Fair Value of Swaps						
Positive	39	132	44	104	319	304
Negative	100	104	23	17	244	105

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The chart below outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined below do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)		1997		1996
Balance Sheet Items	**Book value**	**Fair value**	Book value	Fair value
Cash and Marketable Securities:				
Fixed rate securities	579	584	284	288
Floating rate securities	947	947	768	765
Investments	414	430	407	423
Loans Receivable:				
Performing fixed rate	4,939	5,599	4,187	4,483
Performing floating rate	4,426	5,191	3,551	3,894
Impaired	466	466	484	484
Accounts Payable	84	84	80	80
Loans Payable:				
Fixed rate	2,327	2,371	2,505	2,593
Floating rate	7,181	7,181	5,269	5,269

($ in millions)		1997		1996
Off-Balance Sheet Items	**Notional**	**Fair value**	Notional	Fair value
Currency swap contracts	3,387	(34)	2,684	119
Interest rate swap contracts	2,616	113	2,514	89
Foreign exchange contracts	897	(4)	1,007	(9)
Undisbursed Loan Commitments:				
Fixed rate	2,459	213	n/a	n/a
Floating rate	3,354	30	n/a	n/a

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate. The notional values reported are the expected net loans receivable to be disbursed under these commitments. Comparative fair values of undisbursed loan commitments for 1996 have not been provided due to the lack of availability of data.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is carrying value. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

During 1997, the Corporation received from the Government of Canada $17 million (1996 – $101 million) for principal pursuant to debt relief arrangements. In addition, the Corporation has loans receivable of $149 million and undisbursed commitments of $1,351 million, for which it has recourse to the Government of Canada in the event of a loan default.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account". The Board of Directors is only responsible for the management and the administration of the program. Accounts for the program are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,941 million at December 31, 1997 (1996 – $2,899 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,565 million (1996 – $4,165 million). Reinsurance of $64 million has been deducted from the insurance policies in force.

The Corporation retained $19 million (1996 – $17 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Reclassification of Comparative Figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

FIVE YEAR REVIEW

BALANCE SHEETS

as at December 31

($ in millions)	**1997**	1996	1995	1994	1993
Gross loans receivable	**12,373**	10,504	9,910	9,901	8,421
Less: non-accrued capitalized interest	**1,082**	998	927	929	843
Less: allowance for losses on loans*	**1,628**	1,423	1,233	926	745
Net loans receivable	**9,663**	8,083	7,750	8,046	6,833
Cash and investments	**1,927**	1,444	1,459	1,097	2,085
Accrued interest and other assets	**262**	214	214	203	161
Total assets	**$11,852**	$9,741	$9,423	$9,346	$9,079
Loans payable	**9,556**	7,735	7,668	7,734	7,672
Accrued interest and other liabilities	**415**	349	378	363	395
Allowance for claims on insurance and guarantees*	**336**	240	204	158	117
Total liabilities	**10,307**	8,324	8,250	8,255	8,184
Share capital	**983**	983	851	813	788
Retained earnings	**562**	434	322	278	107
Shareholder's equity	**1,545**	1,417	1,173	1,091	895
Total liabilities and shareholder's equity	**$11,852**	$9,741	$9,423	$9,346	$9,079

INCOME STATEMENTS

for the year ended December 31

($ in millions)	**1997**	1996	1995	1994	1993
Loan interest earned*	**752**	671	799	737	540
Investment interest earned*	**92**	99	87	59	91
Less: Interest expense*	**481**	437	485	458	427
Net interest income	**363**	333	401	338	204
Insurance premiums and guarantee fees*	**99**	92	76	52	52
Other fees*	**30**	17	14	17	16
Premium and fee income	**129**	109	90	69	68
Provision for credit losses	**295**	270	390	180	181
Income after provision for credit losses	**197**	172	101	227	91
Administrative expenses	**69**	60	57	56	50
Net income	**$128**	$112	$44	$171	$41

**Figures prior to 1997 are restated to conform with current presentation.*

CORPORATE ACCOUNT

FINANCIAL ARRANGEMENTS FACILITATED

($ in millions)	1997	1996	1995	1994	1993
Export Financing*					
Direct financing**	5,454	3,678	2,142	1,879	3,191
Export Insurance					
Short-term insurance*	20,332	15,756	13,044	8,164	7,009
Medium-term insurance*	2,629	2,464	1,954	1,300	1,437
Guarantees*	221	132	97	288	129
Sub-total	23,182	18,352	15,095	9,752	8,575
Total	$28,636	$22,030	$17,237	$11,631	$11,766

FINANCIAL AND OTHER DATA

	1997	1996	1995	1994	1993
Export Financing					
Number of transactions financed	242	172	140	137	164
Number of loans receivable	810	801	759	838	878
Value of total obligations on loans receivable	12,469	10,517	9,920	9,935	8,466
Number of undisbursed loans	216	216	201	197	213
Value of undisbursed loans	6,482	2,863	1,854	2,357	3,238
Value of disbursements to exporters	3,321	2,463	2,172	2,444	1,365
Value of liability on loan guarantees	416	347	257	202	145
Undisbursed amounts on loan guarantees	145	85	88	41	82
Number of current lines of credit and protocols	44	50	46	44	34
Amounts available for allocation	1,356	1,570	1,719	1,799	2,697
Loan amounts rescheduled	158	464	442	1,397	83
Loan recoveries	-	-	-	5	-
Loan amounts written off	18	-	-	-	1
Export Insurance					
Number of policies issued	3,021	2,591	2,040	1,732	1,819
Number of insurance policies and guarantees in force	5,352	4,404	3,446	3,186	3,000
Value of liability on insurance and guarantees	10,910	8,508	7,546	7,221	6,607
Value of claims paid	43	60	28	47	48
Value of claims recovered/rescheduled	16	11	8	51	22
Value of claims outstanding at end of year	119	100	57	48	61
Value of claims under consideration at end of year	15	14	17	10	2
Average employee strength during year	650	602	557	549	541

** Figures prior to 1996 are restated to conform with current presentation.*

*** Excludes the Corporation's participation with recourse of $1,500 million in a Government of Canada loan, which is included in the direct financing under Canada Account.*

CANADA ACCOUNT

Financial Arrangements Facilitated

($ in millions)	**1997**	1996	1995	1994	1993
Export Financing*					
Direct financing	**1,584**	131	430	317	901
Export Insurance					
Short-term insurance*	**-**	6	4	-	58
Medium-term insurance*	**283**	299	281	168	341
Guarantees*	**34**	-	-	2	30
Sub-total	**317**	305	285	170	429
Total	**$1,901**	$436	$715	$487	$1,330

Financial and Other Data

	1997	1996	1995	1994	1993
Export Financing					
Number of transactions financed	**7**	29	26	7	33
Number of loans receivable	**297**	291	258	247	239
Value of total obligations on loans receivable	**2,799**	2,753	2,677	2,517	2,213
Number of undisbursed loans	**81**	96	88	81	94
Value of undisbursed loans	**309**	373	598	729	642
Value of disbursements to exporters	**115**	171	434	258	404
Number of current lines of credit and protocols	**1**	1	3	3	2
Amounts available for allocation	**20**	20	93	120	110
Loan amounts rescheduled	**136**	9	17	305	62
Export Insurance					
Number of policies issued	**12**	7	10	15	25
Number of insurance policies and guarantees in force	**23**	22	24	33	41
Value of liability on insurance and guarantees	**241**	456	508	482	721
Value of claims paid	**6**	-	23	20	1
Value of claims recovered	**-**	4	6	-	-
Value of claims outstanding at end of year	**41**	34	39	22	2

**Figures prior to 1996 are restated to conform with current presentation.*

CORPORATE MANAGEMENT

Leona Assié
Administrative Services

David Bailey
Foreign Investment Insurance

John Balint
Project Finance

Jean Beaulieu
Consumer Goods Team

Gerry Bourbonnais
Claims and Recoveries

Jim Brockbank
Risk Management Office

Jean Cardyn
Contract Insurance and Bonding

Rolfe Cooke*
Short-Term Financial Services

Jim Curley
Credit Surveillance & Analysis

Don Curtis
Industrial Equipment Team

June Domokos
International Markets

Peter Foran
Information Technologies Team

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance & Control

A. Ian Gillespie*
President and
Chief Executive Officer

Leslie Goodfellow
Financial Institutions Team

Linda Graupner
SME Financial Services Team

Glen Hammond
Western Region

Kevin Harris
Base and Semi-Manufactured
Goods Team

Peter Hepburn
Project Finance

David Herscovitch
Industrial Advisory Services

Catherine Hess
Forestry Team

Glen Hodgson
Government Relations
and Corporate Policy

John Hutchison
SME Services

Peter Jones
Equity Team

Harry Kaunisviita
Corporate Business Systems

Louise Landry
Corporate & Financial Planning

Marc Leduc
Legal Services

Marie MacDougall
Capital Markets

Clare Marshall
Treasury

Mike McLean
International Markets

Keith Milloy
Short-Term Insurance

Mike Neals
Marketing

Sherry Noble
Engineering and
Professional Services Team

Jim Olts
Economics

Katherine Payne*
Human Resources
& Administration

Brian Pearce
Internal Audit and Evaluation

Toby Price
Quebec and Atlantic Region

Gilles Ross*
Legal Services and Secretary

Eric Siegel*
Medium- and Long-Term
Financial Services

Ed Simac
Information Systems

Diana Smallridge-MacLeod
International Relations

**Executive Committee*

BOARD OF DIRECTORS

(as at December 31, 1997)

Mr. William R.C. Blundell
◗ ◆ ❖ ❍ ☆ ✚
Corporate Director
Toronto, Ontario

Ms. Dorothy E. Byrne, Q.C. ▲ ✚
Vice President,
Law and Regulatory
Affairs and Corporate Secretary
BC Telecom Inc. and BC Tel
Burnaby, British Columbia

Mr. Rayburn D. Doucett ☆ ✚
President, Crosswaters
Trade Brokers Limited
Jacquet River
Restigouche County,
New Brunswick

Mr. Marcel Dufour ✚
Corporate Director
St. Lambert, Quebec

Mr. Marcel Dutil ☆ ✚
Chairman of the Board,
President and Chief
Executive Officer
The Canam Manac Group Inc.
Boucherville, Quebec

Mr. A. Ian Gillespie ❖ ❍
President and
Chief Executive Officer
Export Development Corporation
Ottawa, Ontario

Mr. Robert J. Holt ✚
President and Chief
Executive Officer
Sun-Rype Products Ltd.
Kelowna, British Columbia

Mr. James A. Judd
G-7 Deputy for Canada
and Assistant Deputy Minister
International Trade
and Finance Branch
Department of Finance
Ottawa, Ontario

Mrs. Huguette Labelle
President
Canadian International
Development Agency
Hull, Quebec

Mr. Pierre MacDonald ❍ ☆ ✚
President and
Chief Executive Officer
MacD Consult Inc.
Verdun, Quebec

Mr. Thomas M. Munn ▲ ❖ ■ ✚
President
Munn & Company Limited
Mount Pearl, Newfoundland

Mr. James A. Pattillo ✱ ✚
President and Chief Executive Officer
XL Foods Ltd.
Calgary, Alberta

Mr. Alexander K. Stuart ❑ ● ❍ ☆ ✦
Chairman of the Board
The Electrolyser Corporation Ltd.
Toronto, Ontario

Mr. Robert G. Wright ❖ ☆
Deputy Minister for
International Trade
Ottawa, Ontario

- ❑ *Chairman of the Board of Directors*
- ◗ *Vice-Chairman of the Board of Directors*
- ◆ *Chairman of the Audit Committee*
- ▲ *Member of the Audit Committee*
- ● *Chairman of the Executive Committee*
- ❖ *Member of the Executive Committee*
- ■ *Chairman of the Human Resources Committee*
- ❍ *Member of the Human Resources Committee*
- ✱ *Chairman of the Business Development Committee*
- ☆ *Member of the Business Development Committee*
- ✦ *Chairman of the Corporate Governance Committee*
- ✚ *Member of the Corporate Governance Committee*

Corporate Governance Practices

EDC's Board of Directors is actively assuming the leadership and stewardship of the Corporation, working closely with management, and ensuring the effective functioning of the Board.

Of top priority is the leadership of the Corporation, which is evidenced by the comprehensive way in which the Board contributes to the development of the Corporate Plan of the Corporation, and by the sharp focus it places on the Corporation's strategic direction, which includes evaluating its mandate in light of the changing international business environment.

Being responsible for the stewardship of the Corporation, the Board ensures that the principal risks of the business are identified, and information systems and management practices are in place to manage these risks. In this regard, the Board is assisted by an effective network of Committees including: the Executive Committee, which considers urgent matters arising between regular meetings of the Board; the Audit Committee, which assists the Board in discharging its responsibilities in relation to corporate accounting and financial reporting, internal control systems, internal and external audits, and special examinations; the Business Development Committee, which focuses on marketing and communications activities; the Human Resources Committee, which ensures that appropriate resources and succession plans are in place; and the Corporate Governance Committee, which assists the Board in ensuring that it functions efficiently and effectively.

With respect to the functioning of the Board, in 1997 the Corporate Governance Committee oversaw the administration of a survey among EDC directors which was an initial step toward establishing the extent of the Corporation's compliance with Guidelines as set out in the publication *Corporate Governance in Crown Corporations and Other Public Enterprises* by the Department of Finance and Treasury Board of Canada. The results of the survey indicated that directors felt that the Board was fulfilling its main responsibilities as outlined in the publication, and were satisfied with the present *modus operandi* of the Board. To ensure truly effective governance, however, the Governance Committee decided that the next steps to be undertaken in 1998 should be the formalization and codification of EDC's governance practices, a score card analysis of the extent to which they respond to the Guidelines, then the establishment of an action plan to address any significant gaps. Such a process, it was felt, would be consistent with the above-mentioned Guidelines, and would allow EDC's corporate governance practices to evolve in keeping with today's dynamic global trade environment.

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EDC
SEE

EXPORT DEVELOPMENT CORPORATION

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ANNUAL REPORT

BUSINESS WITHOUT BORDERS

EDC
SEE

TAKING CANADA TO THE WORLD

Since 1944, Export Development Corporation (EDC) has been helping Canadian businesses grow and prosper through international trade and foreign investment. EDC is a unique financial institution that strengthens the global competitiveness of Canadian companies through some of the most sophisticated trade finance solutions and skills

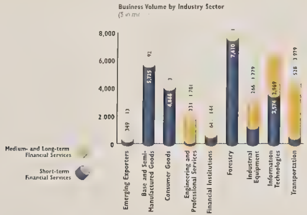
EDC has the flexibility, expertise, experience and agility to consistently support both small and large Canadian exporters and foreign investors with creative financial solutions in some 200 countries around the world, including many of the higher-risk high-potential emerging markets. EDC firmly believes that no company is too small to export and no exporter is too small for EDC. Smaller exporters benefit from a streamlined application and credit approval process.

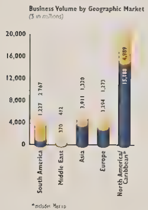
EDC's financial services – in combination with our partnerships and global reach – provide the competitive advantage Canadian exporters need.

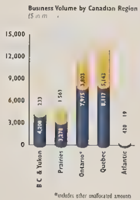
EDC's financial services minimize credit risk, support export sales with buyer financing, protect performance bonds and enhance exporters' access to working capital. Short-Term Financial Services focus on credit and political risk insurance. Medium- and Long-Term Financial Services include bonding and guarantees, political risk insurance, direct buyer loans and lines of credit. More specialized financial services include highly structured, limited recourse financing arrangements and joint ventures or projects that involve long-term leasing arrangements and equity participation.

Through its sector- and product-based business teams and specialized customer support groups, EDC provides a full range of trade finance services to assist Canadian exporters and investors

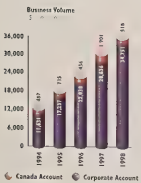
1998 CORPORATE ACCOUNT HIGHLIGHTS

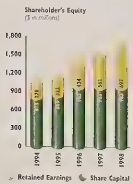


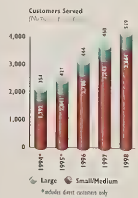




FIVE-YEAR REVIEW







1998 PERFORMANCE AGAINST OBJECTIVES*

Each year, management sets objectives reflecting EDC's corporate goals. Simply stated, the objectives of serving more customers, supporting more business, and generating an adequate rate of return form the cornerstone of EDC's corporate strategy. EDC is dedicated to corporate disclosure and financial accountability, an objective that has been recognized by the Auditor General of Canada. For three of the past five years, EDC has been presented with the Award of Excellence in Annual Reporting by a Crown Corporation for the "best" in accountability reporting through its annual reports and corporate plan summaries, which are tabled in Parliament.

OBJECTIVE #1: Increase the number of customers served by 16.5 per cent.

The number of companies benefiting directly or indirectly from EDC services grew from 3,711 in 1997 to 4,183 in 1998. This represents an increase of 13 per cent over last year, yet falls short of our objective. One factor contributing to this underachievement is that a new telemarketing campaign did not generate the expected number of new customers.

1999 OBJECTIVE: Increase number of customers to 5,100.

OBJECTIVE #2: Increase the volume of business supported by 14 per cent.

The volume of business supported by EDC in 1998 increased by 21.7 per cent, from $28.6 billion to $34.8 billion. Although EDC's objective is to support customers wherever their international business takes them, we believe that our risk management solutions are most valued when companies venture into higher-risk markets. We supported $8.9 billion of business volume in higher-risk markets for 1998, 4 per cent above our target and 14 per cent higher than 1997 results.

1999 OBJECTIVE: Increase volume of business supported to $37.0 billion.

OBJECTIVE #3: Maintain customer satisfaction at 1997 level.

In our annual customer survey, our customers rated their satisfaction with EDC in 1998 as essentially the same in statistical terms as they had in 1997, with a score of 79.8 out of 100 in 1998 versus 79.5 in 1997.

1999 OBJECTIVE: Maintain customer satisfaction at present level.

In 1998, we introduced a new measure of internal efficiency which ensures administrative expenses are appropriate when compared to operating income. In 1998, EDC achieved a ratio of administrative expenses to operating income of 12.5 per cent.

1999 OBJECTIVE: Achieve an internal efficiency ratio of less than 16 per cent.

A net income of $135 million was achieved in 1998, after setting aside $433 million in additional allowances. A new measure was introduced in 1998, referred to as the financial sustainability ratio, which is the ratio of adjusted operating income (net of administrative expenses) to capital and allowances (average for the year). This ratio measures the funds generated to grow the capital base to support future risk taking and allow EDC to remain self-sustainable. In 1998, the financial sustainability ratio was 14.8 per cent.

1999 OBJECTIVE: Maintain a financial sustainability ratio within the range of 13.5 per cent to 15 per cent.

CHAIRMAN & PRESIDENT'S MESSAGE

BUSINESS WITHOUT BORDERS

For EDC, 1998 was another year of milestones, all the more remarkable as they were achieved during a period of unprecedented turbulence in world markets. We supported a record 4,183 customers in 1998, an increase of 13 per cent over 1997, helping these customers generate $34.8 billion in sales and foreign investment in 155 countries. This represents a 21 per cent increase over the $28.6 billion in business supported the previous year.

With Canadian exports now accounting for about 40 per cent of total economic output, the highest in the industrialized world, EDC is increasingly providing both the security and boost that Canadian companies need to prosper in today's extremely competitive international trading environment.

A. Ian Gillespie
President and Chief Executive Officer

We also met several other important performance objectives: in particular, we maintained our high level of overall customer satisfaction, achieving a score of nearly 80 per cent; and generated a net income, after the necessary prudential reserves, of $135 million, well within our targeted range. This income, a measure of our capacity to support future risk-taking and growth of Canadian business, compares to $128 million in 1997. Increased income from a larger operating base was largely offset by higher loan and insurance provisions due to credit deterioration globally. As further evidence of this deterioration, total claims paid in 1998 reached $72 million in respect of some 60 countries, compared to $43 million and 52 countries the year before. In this volatile financial environment with a propensity for negative surprises, the value of EDC's risk management services is underscored.

Because EDC has enjoyed strong financial results in recent years, the Board of Directors has approved a dividend policy in the form of a new financial sustainability framework. This framework is based on the premise that EDC will remain financially self-sustaining, and that its profitability will be associated with a return on equity sufficient to sustain planned growth while maintaining capital adequacy.

Given that EDC is targeting higher-risk markets on behalf of Canadian businesses, as well as operating in an increasingly uncertain global economic environment, a Risk Management Committee of the Board has been established to ensure that the principal risks of the Corporation's business have been identified and that appropriate systems are in place to manage our risk strategy.

Overall, our results are a tangible reflection of our public policy mandate: to support and develop, directly or indirectly, Canada's export trade, as well as Canadian capacity to engage in that trade and to respond to international business opportunities. We do so by taking on trade risks in a financially sound manner, through credit insurance, bid and performance bonds and guarantees, and by making it easier for foreigners to "buy Canadian," through a multitude of financing options.

While EDC operates as a commercial financial institution and has earned a profit in all but one of its 54 years, its public policy mandate sets it apart from mainstream financial firms and clearly focuses its mission on maximizing Canadian exports and foreign investment. Towards the end of 1998, we ensconced this mandate in our vision for the corporation:

EDC will be the recognized leader in providing ground-breaking commercial financial solutions for companies of all sizes, helping them to succeed in the global marketplace and create enduring prosperity for Canada.

THE RECOGNIZED LEADER

We believe that the interests of Canadian companies engaged in global trade and investment are paramount. The greater the catalytic role we can play in assisting

their international initiatives, the greater the value EDC creates. Recognition by our customers of this role, and its value in advancing their own success, will be a strong beacon that can lead more Canadian companies to confidently do "business without borders."

Over the past five years, Canadian exports increased by about 90 per cent. During the same period, EDC support to exporters has grown nearly fourfold. As our results and history indicate, EDC has been successful in balancing our public policy role with financial self-sustainability, a juggling act that relies on the best risk assessment and risk management skills available.

Ironically, in many ways we are better known abroad than at home. EDC is recognized as one of the most successful export credit agencies (ECAs) in the world, yet our capacity to serve Canadian companies, both exporters and potential exporters, is far from satiated.

Patrick J. Lavelle
Chairman of the Board of Directors

GROUND-BREAKING COMMERCIAL FINANCIAL SOLUTIONS

In today's uncertain global economy, where traditional lenders are reining in their support, EDC has not only a responsibility to bring additional capacity to the market, but also a challenging role to serve as a catalyst of essential financing. We can partner with other financial institutions, both public and private, pooling our skills and resources to leverage capacity and buffer risks. Our political risk insurance (PRI) program, alone or in concert with other suppliers, can help draw, for example, commercial and private investors to viable projects in volatile markets.

Owing partly to increasing risks in Asian markets, demand for EDC short-term credit insurance rose 40 per cent in 1998, compared to 1997. For a market like South Korea, short-term insurance volumes increased 127 per cent, from $196 million in 1997 to $445 million in 1998. In total, we supported $24 billion in short-term credit insurance in 1998. This scope of activity itself is "ground-breaking" and distinguishes us from other financial institutions.

In medium- and long-term (M&LT) financial services, we broke the $10 billion mark, including $6.6 billion in foreign buyer, project and equity financing and the remainder divided among medium-term insurance and political risk insurance. The total represents a 30 per cent increase over 1997 and a sixfold jump over our export financing volumes a decade ago. Approximately $4.8 billion of the total M&LT activities was in respect of developing countries exhibiting the highest political and economic risks. The evolution and restructuring of our business teams in 1998 into more highly-focused industry sector teams has allowed us to deepen our relationship with customers and better understand their challenges and opportunities.

Throughout 1998, we have taken a more active role in identifying and developing key international relationships with leading public and private sector institutions in the most promising emerging markets. The purpose is to increase awareness of EDC's financial services, uncover opportunities and prime demand for imports of Canadian goods and services. In this vein, we committed to posting representatives in Brazil and Mexico, complementing our "desk" in China, established in late 1997.

We are also continuing to develop our technology base to better serve customers of all sizes. During 1998, we made excellent progress on our Year 2000 systems compliance and improved both our real-time services to exporters and our internal systems, allowing us to process data faster and more effectively.

COMPANIES OF ALL SIZES

To be the recognized leader in our field, we must serve companies of all sizes equally well. The needs of firms venturing outside of Canada for the first time, however, are quite different from those trying to secure a limited-recourse project finance transaction in the hundreds of millions of dollars. Our ability to satisfy both ends of the spectrum is one of EDC's distinguishing features.

Small- and medium-sized enterprises (SMEs) were among the key economic drivers in 1998, and represented close to 90 per cent of our customer base. We increased our business volume to this group by 21 per cent in 1998 over the previous year. In concrete

terms, this represents more than 3,600 customers to whom EDC provided $5.8 billion in financing and insurance in more than 150 countries.

According to our 1998 customer survey, average satisfaction of SMEs increased across all critical measures, including EDC's response to inquiries, turnaround time on transactions and appetite for risk. Our free on-line service that speeds up policy administration for short-term insurance customers, EDC Direct, added several helpful new features in 1998. These include enabling customers to view and print credit approval decision letters on-line.

We also assist small business through our partnership with NORTHSTAR Trade Finance Inc., headquartered in Richmond, British Columbia. NORTHSTAR provides smaller medium-term loans to foreign buyers and every such loan is backed by EDC insurance. In 1998, NORTHSTAR made its services more accessible to the Quebec market by opening an office in Montreal, to complement those in Toronto, Calgary and Richmond. It also gained a new bank shareholder, Hong Kong Bank of Canada, which joins Bank of Montreal and Royal Bank of Canada.

SUCCESS IN THE GLOBAL MARKETPLACE

As world trade continues to expand and as exports grow in importance to the Canadian economy, so too does our public policy mandate. In the fall of 1998, an arms-length Legislative Review, as stipulated by the Export Development Act, was launched to assess EDC's effectiveness in supporting the current needs of Canadian exporters and investors and its readiness to support the evolving needs of companies in an increasingly competitive world.

From the reviewer's cross-Canada consultations and surveys, we know that our customers have been very positive about the direction in which EDC has been moving, but, in short, they want and need us to do more — to take more risks and be more innovative in our financing and insurance support. EDC can lead the way for Canadian companies that might not venture into many parts of our global village without a strong financial partner to help them compete head on in the major leagues. EDC not only creates a more secure climate for Canadian companies of all sizes by mitigating trade risks, but also creates a more welcoming climate for foreign buyers by making it easier for them to buy goods and services which are second to none.

To help Canada further succeed in the global marketplace, we see our role today and in the future as more than a service provider. We must also be an emissary and catalyst for Canadian business expansion, seeking out worldwide supply and investment opportunities and partnering with other financial institutions on behalf of our customers and Canadians at large.

ENDURING PROSPERITY FOR CANADA

Exports help drive economic growth, job creation and prosperity in Canada, a country big on resources, technology and talent, but relatively small in population. One in every three Canadian jobs is tied to exports. Growing and diversifying our export and investment base are key to Canada's future economic well-being. This is why EDC has increased its emphasis on SMEs and is supporting other growing sectors, including environmental exports and women entrepreneurs.

EDC is also committed to promoting international business skills and trade-related career opportunities among students and young entrepreneurs. Through our Education and Youth Employment (EYE) strategy, we are reaching out to Canada's future business leaders and helping to build an export culture.

Our public mandate also bears other responsibilities if we are to achieve our vision of helping create enduring prosperity for Canada. These include the need to follow the highest ethical standards and to strike an equitable balance between export competitiveness and environmental conservation. In 1998 we issued a set of formal policies and guidelines — entitled *What We Stand For* — governing business ethics and standards of conduct, signed by all our employees and directors.

We are also in the final stage of formalizing our procedures for assessing the environmental risks of projects we support. With the help of a leading environmental consultant, we have developed an environmental framework that reflects, in a balanced way, the expectations of our customers, the government and other stakeholders who were consulted in the process. It builds upon EDC's current environmental assessment practices to help safeguard the high standards of environmental protection that Canadians expect, while ensuring that exporters are not unduly hindered from competing internationally.

We also continue to take a leadership role, to advocate and promote the best practices internationally, within the Organization for Economic Cooperation and Development (OECD) Working Group on Export Credits.

TOWARDS 2000

With economic predictions of sporadic and fragile recovery in Asia and elsewhere in 1999, and modest export growth of four per cent forecast for Canada, competition for trade opportunities will be fierce and credit risks in many markets will remain very high. In this climate, EDC has an increasingly important role in helping Canadian companies manage international trade risks and in maintaining critical trade and investment finance flows to creditworthy foreign buyers and projects.

During 1998, the financial market turmoil brought many new customers to our door. In 1999, we will continue to build on this customer base by actively promoting our risk management services and our ability to take on risk in some 200 countries. The substance of our strategy resides in our continuing search for innovative financial solutions for Canadian companies of all sizes, in all industrial sectors, to fit their individual needs.

We also strive to leverage our extensive worldwide business contacts and establish new ones to capitalize on business opportunities for Canadians as they arise. Before the end of 1999, we will have increased EDC's representation abroad and we expect that this move will help us bring more business leads, a better understanding of local market conditions and tangible results back to Canadian exporters.

We will continue to partner with other financial firms around the world to increase financial capacity and to leverage our own capital base. No lender is an island, especially in our close-knit global community. By risk-sharing, we can encourage other lenders to go further, and thus serve as a catalyst to competitive advantage for Canada.

We look forward to the results of the Legislative Review and are confident that its recommendations will enable us to fulfill these goals, all in an atmosphere of the highest ethical standards and environmental responsibility.

PEOPLE

This entire report, and the successful results it embodies, is a tribute to every one of our 700 employees. Their ingenuity, enthusiasm, dedication and sheer hard work drive EDC, deliver the critical services to our customers and fuel both EDC and our customers' growth.

We are extremely proud of our people who together represent the largest pool of trade finance skills under one roof in Canada, a breadth of talent that distinguishes EDC internationally. We recently introduced, as a vital companion text to our vision statement, a new set of corporate values which puts particular emphasis on people, excellence, learning and passion. These are the building-blocks of enduring success.

Our results in 1998 are also a tribute to our dedicated Board of Directors. Working closely with EDC management, the Board has guided the strategic direction of the Corporation, providing timely advice on initiatives critical to EDC's continued success. Patrick Lavelle assumed the Chairmanship of the Board effective January 1, 1998, followed by the appointments of three new directors: Robert Fung and Joy Kane of Ontario, and Grace White of Nova Scotia. In addition, we recognize the valued contributions of Marcel Dutil of Quebec, Jim Judd of Ontario and Tom Munn of Newfoundland, who retired from the Board during the year.

We also pay homage to the late Toby Price, EDC Regional Vice-President for Quebec and Atlantic Canada, who died suddenly last May. His "joie de vivre" and unique contributions to EDC and the broader business community are sorely missed, and we extend our condolences to his family.

We sincerely thank our employees and directors for their past accomplishments, their present commitment and their continual striving to be the best in their field. The success of our people, our corporation and our customers are intimately linked and together we can help build a dynamic future for Canada.

A. Ian Gillespie
President and Chief Executive Officer

Patrick J. Lavelle
Chairman of the Board of Directors

SMALL & MEDIUM-SIZED ENTERPRISES

SMALL BUSINESS IS BIG BUSINESS

EDC divides small- and medium-sized enterprises (SMEs) into two categories: small businesses with up to $5 million in annual sales; and medium-sized businesses with sales of between $5 million and $25 million annually.

Despite some of the most challenging international financial conditions in years, 3,664 SMEs displayed their ingenuity and resolve by closing deals in more than 150 countries with EDC support in 1998.

The $5.8 billion in EDC-backed exports concluded by these companies is 21 per cent higher than the previous year, and double the value done in 1995, the first year of EDC's dedicated services for small- and medium-sized exporters.

Once again in 1998, the United States proved to be a comparatively risky place to do business for Canadian SMEs. Roughly 54 per cent of EDC-backed SME exports were south of the border, and 80 per cent of claims paid under our small business program originated in that market.

EDC won the *Export Grand Prize for Financial Institution of the Year*, awarded by La Presse at the 2nd Export Gala of the International Business World Exhibition in Montreal. One of seven institutions entered in the competition, EDC was specifically recognized by the judges for our dedicated service to SMEs through the Emerging Exporters Team and the SME Financial Services Team.

SMEs selling on credit terms of longer than one year concluded 35 deals valued at $15 million through EDC's SME Financial Services Team. The team delivers streamlined financial solutions for SMEs, very often in higher-risk international markets.

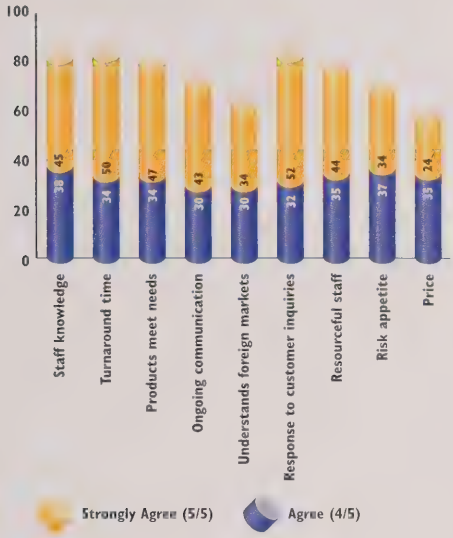
Exports abroad mean jobs, prosperity and growth right here at home. In 1998, 104 companies migrated from EDC's Emerging Exporters Team to our sector-based teams as a result of eclipsing the $1 million mark in exports.

SME SCORECARD

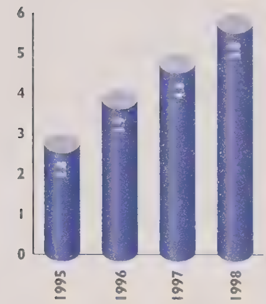
	Dec. 31 1998	Target	Achieved	Dec. 31 1997
SME – Customer count (direct & indirect)	3,664	3,725	98%	3,243
SME – Business volumes ($ millions)	5,752	5,425	106%	4,761
EE – No. of new customers*	528	660	80%	607
EE – Avg. credit approval turnaround time*	1.6 days	1.5 days	94%	1.4 days

*Results for the Emerging Exporters Team are based on direct customers only.

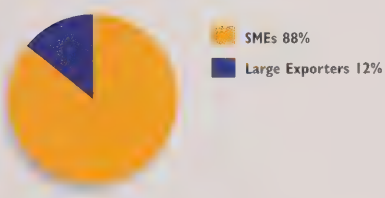
SME Service Attribute Ratings
(Per cent)



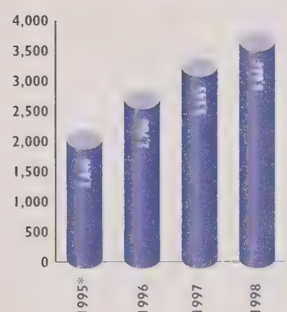
Volume Support for SMEs
($ in billions)



SMEs as a Percentage of EDC's Customer Base

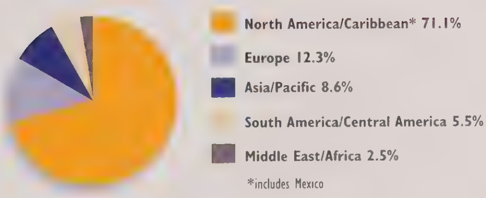


Number of SME Customers



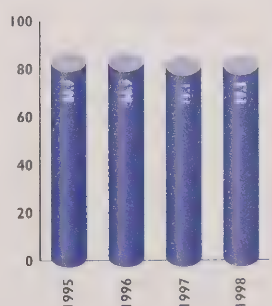
*includes direct customers only

SME Volume by Geographic Market

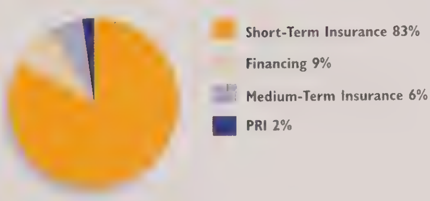


*includes Mexico

Customer Satisfaction Index for SME Customers



SME Product Usage



CANADA FIRST

CONTRIBUTING TO WEALTH CREATION IN CANADA

Without a doubt, 1998 has been a year filled with challenges, both here in Canada and in the international markets where our clients do business. EDC has worked hard to remain a valuable asset to Canadians, and to stay one step ahead of change in support of greater Canadian trade and investment.

EDC is the only Canadian financial institution devoted exclusively to providing trade finance services in support of Canadian exporters and investors in some 200 countries. And though it operates as a commercial financial institution, EDC's mandate is to be an export maximizer rather than a profit maximizer. With its public policy role as a focus, EDC offers a broad range of services; takes a long-term perspective where customers, projects and risks are concerned; and serves clients of all sizes and from all sectors. As a trading nation, EDC's role is critical in Canada.

As a result of its ever-increasing business volume, EDC's capital base continues to grow through retained earnings, allowing EDC to expand its risk-taking capacity. By 1991, EDC had cumulatively supported approximately $75 billion in trade volume, which is projected to increase to $275 billion in 1999. All this has been achieved by providing the highest quality service to Canada's export community, while simultaneously maintaining the policies and priorities of our shareholder.

In 1998, a legislative review to examine issues related to the Canadian trade financing system and EDC's role in both the domestic and international marketplaces was initiated. The purpose of the review is to evaluate EDC's activities since the Export Development Act was revised in 1993. The goal is to provide advice and recommendations to the Minister for International Trade on an appropriate role for EDC as an integral part of Canada's trade promotion network, which may include certain changes to the Act that governs EDC's operations. The review has included stakeholder consultations, a mail survey, focus groups and written submissions from various interest groups. The results of the review will be tabled with a parliamentary committee in 1999.

ENVIRONMENTAL ASSESSMENT FRAMEWORK

EDC sought input from a broad cross section of stakeholders within the exporting and environmental communities on key issues related to the development of a framework for assessing the environmental risks associated with projects seeking EDC support. The ambitious goal: to strike the proper balance between trade competitiveness and environmental conservation.

During the year, EDC also continued to take an active lead on environmental issues at the Organization for Economic Cooperation and Development (OECD). The objective is to not simply maintain a level playing field, but to raise the standards for all exporters by encouraging consideration of the environmental benefits and costs of projects in host countries. Specifically, EDC helped to instigate the adoption of an OECD Statement of Intent on officially supported export credits and the environment. This recognizes the willingness of export credit agencies to strengthen environmental considerations in their risk assessment practices.

EDC is also actively exploring ways to increase its support to Canadian exporters of environmental products, services and technologies.

ETHICS

The Corporation formalized a concise set of principles in 1998 that provide guidance on how EDC will conduct itself within its mandate. The Corporation

called upon outside experts in formulating its code. Most of the principles reflect long-standing practices and are now formalized in EDC's Code of Business Ethics featured at the end of this report.

TEAM CANADA MANAGEMENT BOARD

Last year, EDC joined the Team Canada Inc Management Board. Formed with the objective of establishing trade and investment strategies for the Government of Canada, EDC sees this as an ideal forum to advance its perspective on such concepts as representation abroad, investment, and choosing markets based on business opportunities. The Corporation supports conducting this committee on a business model and using this forum to develop Canada's trade capacity.

EDUCATION AND YOUTH EMPLOYMENT STRATEGY

Canada's economic future depends upon building an export culture. EDC is partnering with the exporters of the future through its Education and Youth Employment (EYE) strategy. EDC is working to promote international business knowledge and export-related career opportunities to Canadian university and college students. By working with students and young entrepreneurs today, EDC encourages young people to take an active role in Canada's export growth tomorrow.

EDC is proud to be a major sponsor for the 1999 Junior Team Canada Program, and AIESEC, a student-run organization that develops leadership, management skills and an awareness of global issues among university students.

Most recently, EDC has joined the business community in support of the Young Entrepreneur Awards and Small Business Week. EDC also believes in sharing its corporate knowledge and expertise by participating in seminars offered by such organizations as the Forum for International Trade Training (FITT).

"EDC's tremendous growth is a direct result of the unique trade finance services it provides to both small and large Canadian companies. EDC is a critical partner in Canada's continuing export success, and a key contributor to our future prosperity."

Honourable Sergio Marchi
Minister for International Trade

CANADA EXPORT AWARDS

EDC continues to be a major supporter and sponsor of the Canada Export Award program which recognizes Canadian companies that have demonstrated excellence in exporting. These awards, presented annually by the Department of Foreign Affairs and International Trade, recognize the innovation, success and expertise of Canadian exporters. Each Award carries significant prestige and benefits to winning companies when they conduct business abroad.

LOOKING FORWARD

Through all of its activities, EDC remains focused on providing ground-breaking financial services to Canadian exporters in order to contribute to jobs, growth and prosperity in Canada. The range of projects in which EDC is involved reflects the diversity of business that we can support. EDC works hard to take a leadership role, and effectively distinguishes itself from other agencies and financial institutions by striking a delicate balance between operating on highly commercial principles while simultaneously serving a public policy objective.

By more fully applying its mandate to act as a catalyst for Canadian business opportunities, by further enhancing its risk management capacities, and by strengthening its efforts to cooperate with Canadian financial institutions and insurance providers, EDC proposes to play a key role in increasing the international competitiveness of Canadian businesses. Such an approach will also enable the Corporation to increase the private market's capacity to support Canadian trade and investment over the long term, by attracting and involving financial players of every type, both within and outside Canada.

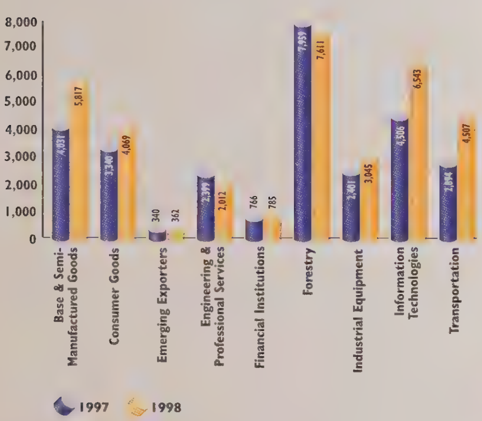
BUSINESS TEAM REVIEW

ENHANCING GLOBAL COMPETITIVENESS

EDC delivers its products and services through sector-based business teams grouped under three broad categories: Services for Small- and Medium-Sized Enterprises (SMEs); Short-Term Financial Services; and Medium- and Long-Term Financial Services. These business teams create financial solutions to fit customers' specific needs and promote a higher level of customer service through their specialized industry knowledge and experience.

The sector-based business teams are supported by product teams that provide in-depth expertise in the areas of project financing, political risk insurance, contract bonding and equity. Other specialist support teams focus on risk management expertise, credit analysis, country knowledge and partnership arrangements with other financial institutions.

Business Team Volume Review*
($ in millions)



*Individual team business volume figures prior to 1998 have been restated in this year's report to reflect the restructuring of business teams.

SME SERVICES GROUP

The SME Financial Services Team supports the sector-based business teams by providing financing solutions that meet the specific needs of small- and medium-sized exporters (total annual sales less than $25 million). In addition, the Emerging Exporters Team works exclusively with companies with export sales of up to $1 million annually to help them manage credit risk.

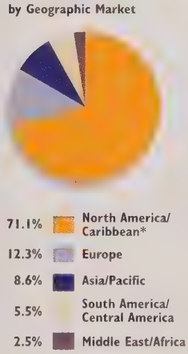
Canadian small businesses proved that they have the tenacity, ingenuity and resilience to succeed internationally in 1998, even under the most demanding economic conditions. EDC's SME Services Group strives to keep pace with the resourcefulness of these exporters.

In 1999, the Emerging Exporters Team will continue to deliver the type of coverage that enables Canadian companies to capitalize on opportunities abroad while safeguarding financial stability — and jobs — right here at home. The SME Financial Services Team will continue to partner with exporters and financial institutions to develop financial solutions to support capital goods exports in the markets where they are needed most.

"Not only do we have peace of mind, but we also have a huge advantage being covered by EDC. Our bank advances funds against our EDC-covered receivables automatically and that makes growth much easier."

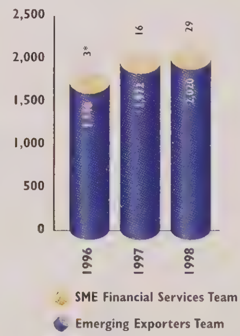
Julia Berger
Vice-President
Great Waters of Canada

Business Volume by Geographic Market

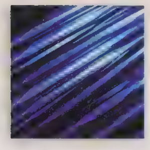


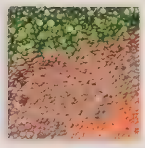
*includes Mexico

Customers Served
(Number of companies)



*4 months





BASE & SEMI-MANUFACTURED GOODS TEAM

The Base and Semi-Manufactured Goods Team serves exporters of non-forestry and non-agri-food natural resources and processed goods, such as ores and minerals, oil and gas extraction and refining, coal and petroleum products.

With commodity prices continuing on a downward trend and economic pressures coming from many different regions — including Asia, Latin America and Eastern Europe — export growth for Canadian base and semi-manufactured goods is expected to remain low at 1.7 per cent in 1999. While consistent with the anticipated business volume decline of 2.9 per cent in 1998, it is a stark contrast to the 7.6 per cent and 9.2 per cent volume growth experienced in 1996 and 1997 respectively. In the midst of such volatility, Canadian exporters will face increasing pressures to maintain their presence in existing markets, while expanding into new regions. The Base and Semi-Manufactured Goods Team is committed to developing innovative risk-sharing solutions to support our clients' needs in this challenging environment.

"Export receivables insurance gave us the courage and support to pursue export markets which we probably would not have pursued without EDC."

Maurice Panchyshyn
President
Plastiques M&R Inc.

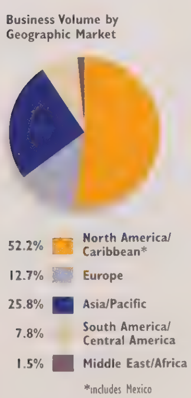
EDC's Consumer Goods Team supports Canadian exporters of a vast array of household goods such as clothing, furniture, electrical appliances and agri-food products.

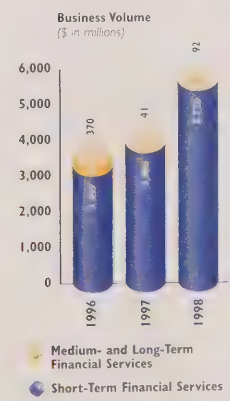
The scope of exports that this team supports continues to broaden, while apparel and agri-food exports remain as key sectors. Team members specialize in particular consumer goods sectors, and this specialization allows the Team to generate innovative risk-management solutions that are tailored to each customer's specific needs.

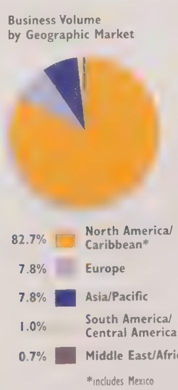
The relatively high-risk market of the United States has traditionally absorbed the majority of Canada's total consumer goods exports and this trend will likely repeat itself in 1999. Despite the challenges that the Asian contagion posed for the agri-food sector, EDC's Consumer Goods Team expects to increase its business volume by a healthy 25 per cent in 1999.

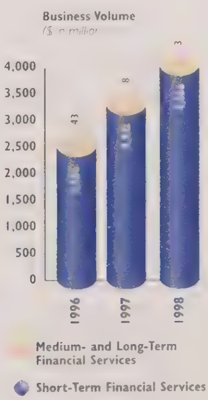
"EDC receivables insurance has helped us to expand globally. We do as much as we can with foreign letters of credit, but we simply would not be able to sell to some customers in certain markets, because of the risks involved."

Glenn Feltmate
Director of Sales
Seafreez, Barry Group









FINANCIAL INSTITUTIONS TEAM

In partnership with Canadian financial institutions, EDC's Financial Institutions Team supports Canadian export sales across all industries that call for payments from banks in foreign markets.

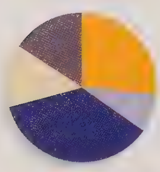
An increase in the issuance of letters of credit is projected for 1999 as a result of the global and financial crises of 1998. The Team's innovative solutions, developed in partnership with Canadian financial institutions, will create new capacity for Canadian exporters. In addition, the Team's services have now been enhanced to facilitate insurance coverage of bank-guaranteed promissory notes and other foreign bank obligations.

As a key partner in emerging and high-risk markets, EDC's Financial Institutions Team will build on its 1998 success to meet the evolving needs of financial institutions in support of Canadian exporters.

"We have come to view the FI Team as an essential component in our risk mitigation process and our partnership has been strengthened by the open communication and sharing of developments in foreign markets."

Charles Attard
Director, Structured Trade & Export Finance
Toronto Dominion Bank

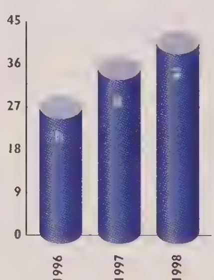
Business Volume by Geographic Market

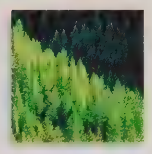


26.3%	North America/ Caribbean*
8.5%	Europe
35.9%	Asia/Pacific
13.5%	South America/ Central America
15.8%	Middle East/Africa

*includes Mexico

Countries Insured





FORESTRY TEAM

The EDC Forestry Team serves exporters of forest products, including lumber, millwork, windows, doors, paper, paperboard, cardboard and pulp.

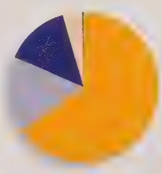
Exports of forest products are expected to remain relatively flat for 1999. Canadian companies face such challenges as the Canada-U.S. Softwood Lumber Agreement, the ailing Japanese construction industry, displaced demand from the Asian markets as a result of the 1998 financial crisis and depressed global prices for forest products. In addition, the U.S. housing market is projected to soften in 1999.

The continued volatility in the industry and the global economic crisis present increasing opportunities for the EDC Forestry Team to provide risk management solutions for new and existing clients. In the year ahead, the Team will also strive to provide comprehensive financial solutions to clients that are investing abroad and embarking on global consolidation initiatives.

"The support from EDC has been indispensable, in particular when selling into unfamiliar markets. EDC provides us with quick responses and their understanding of our business needs has made them a valued business partner."

Bijan Ahmadi
Chief Financial Officer
Interex Forest Products Ltd.

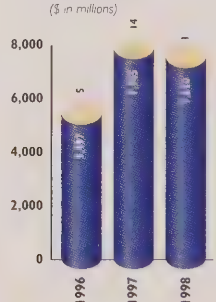
Business Volume by Geographic Market



65.4%	North America/ Caribbean*
16.1%	Europe
14%	Asia/Pacific
4.1%	South America/ Central America
0.4%	Middle East/Africa

*includes Mexico

Business Volume
($ in millions)



Medium- and Long-Term Financial Services
Short-Term Financial Services

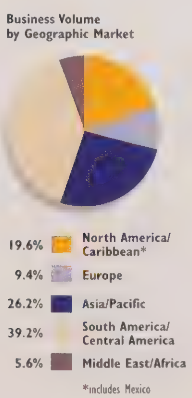
ENGINEERING & PROFESSIONAL SERVICES GROUP

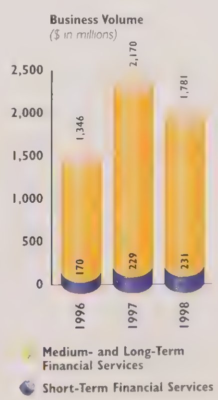
The EPS Group supports sectors such as construction, engineering, mining, power, and business and professional services. To better service its clientele, the group is divided into two teams: Civil Works and Professional Services, and Mining and Power.

EPS customers face both opportunities and challenges in 1999. With significant infrastructure development anticipated in many emerging countries to stimulate economic activity, there is an important role for Canadian exporters to play. While fewer new mining projects are expected to go ahead next year, major international investors, including Canadians, will focus on upgrading or adding to their production and refining capacity, particularly in Latin America. Activity in the power sector also continues, with excellent opportunities in Latin America and in the growing merchant power business in the United States. The United States will remain a key market for Canadian construction companies, which EDC can assist through the reinsurance arrangements it has in place with the principal North American sureties.

"I think this is a team of real professionals who respond quickly and accurately to our export financing and insurance needs. EDC has helped us to meet the international competition head-on."

Gerald D. Rowe
Vice-President
GE Canada





INDUSTRIAL EQUIPMENT GROUP

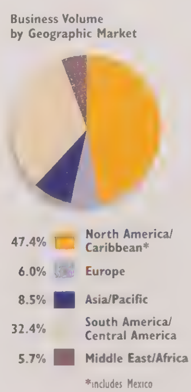
This Group comprises three distinct and uniquely focused business teams: Automotive, Machinery and Equipment, and Oil and Gas.

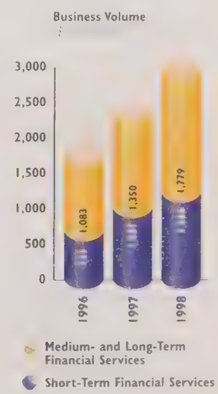
The Automotive Team services the tooling and parts industries of the automotive and trucking sectors. The Machinery and Equipment Team covers mechanized equipment, pulp and paper, plastics and packaging, environmental equipment and services, and agricultural equipment. The Oil and Gas Team uses its expertise for upstream development, downstream plants, equipment and refinery upgrades, and everything in between relating to transmission, distribution and pipeline development.

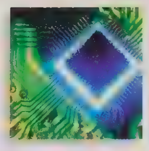
"EDC's ability to work closely with other ECAs and financial institutions is critical to a well-structured financing package and EDC's team dedication and experience has demonstrated time and again its ability to close the deal."

Al Curleigh
Executive Vice-President
KSH

Industrial Equipment Group clients have taken advantage of EDC's full range of services including a mix of project financing, structured financing and direct balance sheet financing products. This trend is expected to continue and the Group anticipates an increased demand for its broad range of risk management services in 1999.







INFORMATION TECHNOLOGIES GROUP

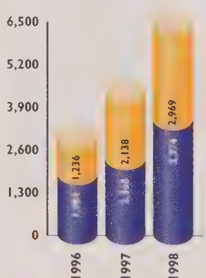
EDC's Information Technologies Group supports several sectors, including telecommunications equipment, electronic parts, computers, instrumentation and software services. The group is divided into two teams: Advanced Technology, and Telecom.

While global growth in the IT sector is expected to moderate to 8 per cent over the next few years, there are still promising opportunities in Latin America, Western Europe and the United States. 1999 is expected to be particularly promising for innovative Canadian firms in the specialty sectors of software, sound and video processing, and electronic components.

"EDC's unique appetite for country risk and its ability to evaluate and assume commercial buyer risk in Latin America have helped us win contracts that we would not otherwise have even pursued."

Jannett Cano-Théberge
Director of Finance
for Latin America
Newbridge Networks Corporation

The IT Group has worked closely with a number of customers in 1998 to establish leading-edge credit insurance, bonding, leasing and financing structures. The Group looks forward to continuing such high-level customer service in 1999 to meet the growing demands of their end buyers. Overall, the trend towards open account payment terms and vendor-supported financing has increased and it is anticipated to remain a competitive reality for this sector.



TRANSPORTATION GROUP

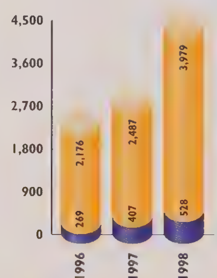
EDC's Transportation Group is divided into two teams: Ground Transportation and Shipping, and Aerospace. The Group serves a wide array of Canadian manufacturers of aircraft and parts, motor vehicles and parts, shipbuilding and repair, railroad rolling stock and other transportation equipment.

The Ground Transportation and Shipping Team expects continued overall growth, due in part to an initiative that will offer financing capability to Municipal Transit Authorities in the United States. The aim of this initiative is to enable Canadian mass transit and bus suppliers to take advantage of export opportunities in the United States arising from significantly new levels of federal government funding.

"EDC is a critical partner to Bell Helicopter in delivering customer financing solutions and plays a key role in the expansion of our global marketing initiatives, given that financing has become an increasingly important element in contract decisions by our clients."

Roy Macrae
Director - International Business
Bell Helicopter Textron

The Aerospace Team anticipates an increase in demand for EDC's products in 1999 as the trend towards aircraft component outsourcing continues, and new opportunities for SMEs emerge. In response, the Team will be diversifying its customer base and expanding its support for SMEs.



STRUCTURED FINANCE GROUP

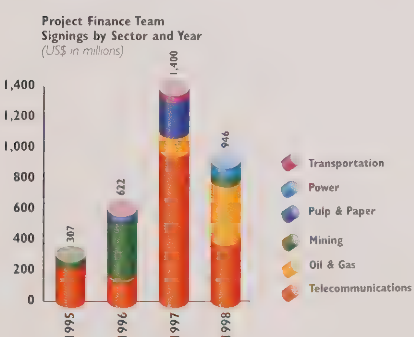
This Group's Project Finance Team offers limited recourse financing, which addresses the growing needs of Canadian exporters for flexible and innovative structured financing. The Political Risk Insurance (PRI) Team provides leading-edge support to investors, exporters and financial institutions.

Since its establishment in 1995, the Project Finance Team has closed 46 transactions, with EDC's total financing support exceeding US$3.1 billion. The Project Finance Team's 1998 results were impacted by the turmoil in Asian markets, and continued uncertainty in other markets, notably Latin America. It is expected that the number of projects closed and amounts financed in 1999 will increase from the levels achieved in 1998.

"EDC stepped in at a time when others were reluctant to do so and provided political risk insurance support to Pan American Silver Corp. which brought comfort to our directors and shareholders."

Robert Pirooz
Vice-President, Legal Affairs
Pan American Silver Corp.

EDC continues to use its broad mandate to customize its PRI program. In response to the need for capacity in markets where insurance demand outstrips supply, EDC actively engages risk-sharing PRI partners. EDC arranges or otherwise participates in a number of transactions with insurers from the public and private sector on a coinsurance or reinsurance basis. A strong PRI demand is expected to continue into 1999.



This team delivers tailored commercial risk management solutions and indirect working capital support through EDC's contract insurance and bonding programs.

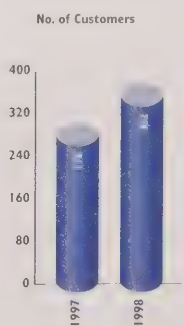
EDC's Contract Insurance and Bonding Team (CIB) is responsible for the development, management and underwriting integrity of these programs.

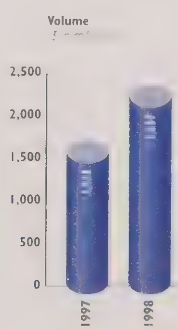
In addition to on-going support to the business teams, CIB's 1998 contributions to the growth of these programs include the development of new pricing for wrongful call insurance; fronting agreements to facilitate the provision of surety support for SMEs; a prereceivable/preshipment insurance policy; and a first excess loss global wrongful call insurance policy.

In 1999, the Team anticipates sustained growth under the contract insurance and bonding programs. This will create continuing challenges with CIB assuming an increasing underwriting support role while focusing on developing better tools to help exporters of all sizes succeed in the global marketplace.

"For many of our customers, EDC's contract insurance and bonding programs make a real difference. Royal Bank Financial Group values its EDC partnership because together we can assist Canadian companies of all sizes pursue opportunities in the global marketplace."

Bernard L. Kruyne
Vice-President and Head
Global Trade Finance
Royal Bank





EQUITY TEAM

The Equity Team provides supplemental, medium-term equity on a commercial basis for transactions that generate direct, quantifiable benefits to Canada. EDC acts as an equity "catalyst" — a minority investor that leverages public- and private-sector capital.

Given the increasing importance of equity financing in securing export contracts, EDC's role as an equity investor is becoming more crucial. This became evident in 1998 as EDC co-invested with financial institutions, investment funds, and Canadian exporters in a number of transactions. The Team expects this trend to continue in 1999.

"EDC's wide product variety and willingness to think 'outside the box' have made a substantial contribution to MacDonald Dettwiler's growth and international profile. The knowledge and experience of EDC's people are invaluable resources in developing export trade."

Dan Friedmann
President
MacDonald Dettwiler

The Equity Team adopts a flexible approach in supporting export-related benefits to Canada in a wide variety of industries. In some cases, this means investing directly in a Canadian exporter in order to position it for greater export gains. In other instances, EDC will provide equity to foreign companies or projects that procure goods and services from Canada. In each case, EDC tailors its investment to the customer's needs.

CUSTOMER SUPPORT TEAMS

Credit Surveillance and Analysis Group

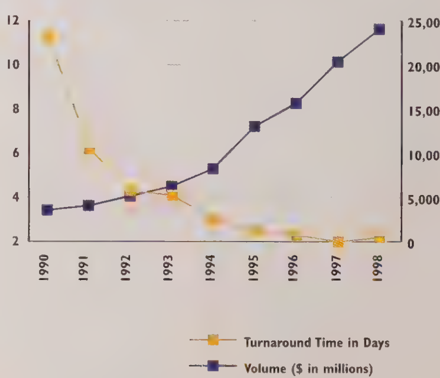
During 1998 this team intensified its analysis of commercial credit conditions worldwide, with particular focus on the growing risks facing companies operating within Asia, Latin America and Russia. A special project team was created to focus on identifying and addressing the risks facing companies and intermediaries who may not be Y2K (year 2000) ready or compliant. On the technology front, the team substantially increased the level of automatic credit approvals generated and at the end of 1998 introduced methods to further speed credit approvals. The Risk Assessment and Surveillance Tools have also been enhanced to provide EDC and its customers with improved risk and loss coverage.

"Canadian companies expanding internationally should not overlook EDC. They have proven to be a resource, providing innovative, 'value-added' ideas and products."

Rick Jocsak
Vice-President and Treasurer
Woodbridge Foam Corporation

In 1999, the Group will continue to tighten decision-making turnaround times through enhanced automation and will provide customers with increasingly innovative and timely analytical support.

Credit Surveillance & Analysis Group Turnaround Time in Days vs. Short-term Insurance Volume *($ in millions)*



Economics Division

EDC and its clients demand high-quality and timely information and advice on risks and opportunities in the global marketplace. In 1998, the Economics Division effectively employed its analytical methodology and early warning systems for measuring economic and political risk, to better our understanding and analysis of the economic crises in Asia and Russia. In 1999, the Division will continue to hone its economic and political risk assessment tools. Continuing emphasis will also be placed on more effectively communicating this information and analysis to our customers.

International Markets Team

EDC will continue to deepen its customer service capabilities by investing in its knowledge of, and contacts in, emerging markets. This will be achieved through the identification of new export and investment opportunities, the deepening of key foreign relationships, the development of innovative and effective financial vehicles for enhancing market penetration, and the heightening of awareness of EDC and Canadian capabilities abroad. Such initiatives will be paramount for EDC and a special focus of the International Markets Team in the year ahead.

EDC representation in key markets will be expanded during 1999 with the placement of personnel in both Mexico and Brazil. Significant customer benefits resulted from EDC's first appointment of a representative abroad in Beijing, China during 1998.

International Relations Team

In 1999, the International Relations Team will continue to actively defend and advance EDC's ability to deliver flexible, creative risk management solutions to its customers. That means continuing to be an advocate on the international stage for more flexible, market-reflective international export credit disciplines. It also means seeking out opportunities to work with export credit agencies and multilateral institutions throughout the world to expand Canadian business opportunities.

Risk Management Office

As the nature and complexity of EDC's loans migrate from traditional sovereign lending to the commercial risk arena, there is a growing need for specific resources focused on pro-active, strategic management of these loans and their associated portfolios. The Risk Management Office underscores EDC's commitment to this aspect of its operations, which is so critical to the realization of project undertakings and payment of loans.

"EDC was there when we needed them. We have successfully bid on a number of large international projects. In arranging financing for these rather complex undertakings, we require lenders that have both creativity and flexibility. We found the people at EDC willing to work with us in coming up with appropriate solutions in a timely manner."

Graham Wilson
Executive Vice-President & CFO
Westcoast Energy

In 1999, the Office will further evolve its risk management function with the incorporation of new risk management technologies. Specifically, we will be enhancing and/or developing a suite of new risk management policies and portfolio management performance measures to permit quicker response time for customers and greater certainty in identifying supportable business, especially in the emerging economies. These new technologies permit EDC to deploy a greater risk appetite in the development of Canada's export trade.

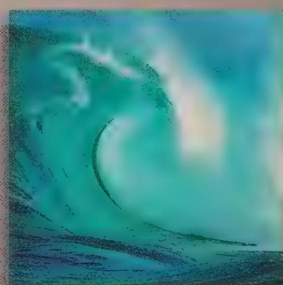
RIDING OUT THE STORM

STRENGTHENING SUPPORT FOR CANADIAN EXPORTERS

Canadian companies faced an uncertain international marketplace in 1998. EDC responded by strengthening its support for Canadian exporters in key export markets such as Asia and Latin America.

Overall demand for EDC's insurance products increased dramatically in 1998 from the previous year. Most notably, short-term insurance volume rose to $24 billion, reflecting considerably higher short-term credit risk in volatile markets. Medium- and long-term product volume also broke records in 1998.

Owing in large part to the economic crises in Asia and Russia, the total value of claims rose substantially in 1998 — evidence of the growing need for credit security provided by EDC and the Corporation's healthy appetite for risk.



LOOKING BACK

Slowing economic growth and excess global production capacity combined to weaken commodity prices and increase competition in international markets. Reflecting the deterioration in the international economy, Canadian exports to Asia and South America fell substantially in 1998 as recessions and economic slowdown in these regions became widespread. Nevertheless, stronger markets in the United States and Western Europe outweighed weak demand conditions in Asia and South America, making 1998 a year of positive export growth for most Canadian businesses.

The Asian economic crisis, which erupted in mid-1997, intensified over the past year and has since spread to other emerging markets. Prospects for Latin America deteriorated as investors, unsettled by the Asian and Russian crises, reacted by moving out of these markets. Interest rates were raised to prevent the outflow of capital and help support fragile currencies, raising the cost of borrowing to prohibitive levels in many emerging markets. The flight to risk-free government bonds in industrialized countries added to the tight financing conditions. To alleviate the growing worldwide liquidity crunch and the slowdown in economic activity, monetary authorities in a number of countries responded by lowering interest rates.

Both the United States and the European Union (EU) put in solid economic performances during 1998. However, signs of a slowdown have begun to emerge. Export and manufacturing growth slowed in 1998 while business spending started to level off. The consumer sector in the United States remained strong, but rising debt levels and low savings rates indicate that consumers in the United States may reduce spending.

WHAT THE FUTURE HOLDS

The global economy should continue to expand in the coming year, although at a slower pace than in recent years. Canadian exports are expected to increase moderately in 1999. With downturns expected in a number of major international economies, Canadian exporters should, nevertheless, have contingency plans to deal with the possibility of declining export sales over the next year. Also clouding the export outlook for 1999 is the likelihood that slower global growth and continued excess capacity will keep commodity prices from rebounding. Furthermore, as emerging markets attempt to export their way back to economic health, the competitive international environment will intensify.

U.S. economic growth is expected to slow to around 2.0 per cent in 1999 from an estimated

3.9 per cent in 1998. Falling Asian demand has pushed down U.S. manufacturing production as exports to Asia decline. Economic weakness in Latin America, an important market for U.S. manufacturers, will add to the slowdown in U.S. industrial production. Growth in U.S. business spending should remain positive in 1999 but will probably slow in response to falling corporate profits, tighter lending standards and excess capacity.

Due to significant trade and financial exposure to weak emerging markets, economic growth in the EU is forecast to fall from 2.8 per cent in 1998 to 2.2 per cent in 1999. Adoption of the Euro currency on January 1, 1999 improves the longer-term outlook for the EU by removing the exchange rate uncertainty and instability which has affected many EU nations in prior years. The fact that EU nations adopting the Euro escaped the recent international currency turmoil is a testament to the strength and confidence the new currency will carry.

Canadian exports to Japan peaked in early 1997 and have been on a downward trend ever since, in tandem with the Japanese economy. Prospects for Canadian exports in 1999 are not good since the Japanese economy shows few signs of bottoming out as yet. Japan's economy is expected to shrink by close to 3.0 per cent in 1998 and by another 1.3 per cent in 1999. A slump in Asian demand and slowing world growth means that exports will not be the engine to pull Japan out of its current economic malaise. It is hoped that recent banking support and fiscal spending measures by the government will help stabilize Japan's economy in 1999.

Throughout much of Asia, falling GDP, high interest rates and large devaluations have created financial distress for corporations, placing additional strain on an already fragile banking sector. Asia's economies should start to improve in 1999, but the recovery will be gradual and sporadic and it may take several years before the region fully recovers. Canadian exports to Asia will remain under pressure for some time.

The pace of expansion in Latin America will slow in 1999, with Brazil already in a recession that will probably worsen before it improves. Several other Latin American countries are also expected to experience varying degrees of recession in 1999. Although slowing, Mexico should escape recession. Low commodity prices, higher interest rates, scarce capital and restrictive economic policies will all serve to hamper Latin American growth in 1999. The downturn in Latin America is not expected to continue much beyond 1999.

In recent years, Eastern Europe's trade and commercial ties have shifted away from Russia and toward Western Europe, enabling Eastern Europe to shake off most ill effects of the Russian crisis. A number of countries in Eastern Europe are currently negotiating for a place within the European Union, which will lend economic and political stability to much of the region. Nevertheless, the economies of Eastern Europe are likely to slow in 1999 as economic growth in Western Europe moderates and exports to Russia decline.

Our risk management services and extensive country knowledge make EDC ideally positioned to respond to changes as they occur in world economies.

Beyond 1999, countries in Asia, Latin America and Eastern Europe are expected to gradually recover as falling interest rates ease tight credit conditions and make it easier for companies and governments to start investing again. Interest rates in crisis-hit economies such as South Korea and Thailand have already started to come down.

EDC continues to provide strong and reliable support to Canadian exporters in the face of economic challenges here and abroad. Our risk management services and extensive country knowledge make EDC ideally positioned to respond to changes as they occur in world economies. EDC is helping more Canadian companies do more business in more countries than ever before, reflecting both its responsiveness and risk appetite.

EXECUTIVE MANAGEMENT TEAM

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Executive Vice-President, Medium- and Long-Term Financial Services

A. Ian Gillespie
President and Chief Executive Officer

Rolfe Cooke
Senior Vice-President, Short-Term Financial Services

Katherine Payne
Vice-President, Human Resources and Administration

Peter Allen
Senior Vice-President and Chief Financial Officer

Gilles Ross
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Corporate Communications

1998 FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION & ANALYSIS

PERFORMANCE AGAINST OBJECTIVES

EDC's corporate objectives of doing more business with more customers and taking on more risk on behalf of those customers, in a financially sound manner, are tracked by way of a number of performance measures. These measures have been updated from the ones presented in the 1999 Corporate Plan to reflect revised estimates based on the final results for 1998.

Customers Served

The number of companies benefiting directly or indirectly from EDC services increased by 13%, short of the Corporation's target of 16.5%. EDC did not meet the target in part because a new telemarketing campaign, introduced in 1998, did not generate the expected number of new customers. Of the customers served, 88% were small- and medium-sized enterprises, a priority customer segment for EDC. In 1999, EDC's strategic focus will be to increase awareness of the Corporation's services among Canadian companies, which should serve to increase EDC's customer base.

	1999 Target	**1998 Actual**	1998 Target	1997 Actual
Customers served	5,100	**4,183**	4,325	3,711

Business Volume

A measure of the Corporation's success in meeting the financial needs of its customers is the volume of business concluded during the year. The volume supported under each of the Corporation's programs increased in 1998, for a total increase of 21% over 1997 and 6% over the 1998 target. Included in the volume for 1998 was $8.9 billion in higher-risk markets. This met the 1998 target and was a 14% increase over the 1997 higher-risk market volume.* As a result of the current economic turmoil and uncertainty in the markets, EDC is projecting a more modest overall increase of 6% in business volume for 1999, of which $8.5 billion is expected to pertain to higher-risk markets.

($ in billions)	1999 Target	**1998 Actual**	1998 Target	1997 Actual
Short-term	26.0	**24.0**	23.3	20.3
Medium- and long-term	11.0	**10.8**	9.4	8.3
Total	$37.0	**$34.8**	$32.7	$28.6

* Restated from 1997 to reflect a change in the definition of higher-risk markets as per the International Monetary Fund.

Customer Satisfaction

Customer satisfaction is fundamental to every aspect of the Corporation's business. A component of EDC's annual customer survey is the Customer Satisfaction Index (CSI), which rates the Corporation's customers' overall satisfaction with EDC as well as their likelihood of recommending EDC to their business associates. The 1998 result was, in statistical terms, essentially the same as in 1997, indicating that the Corporation's customers are very satisfied with EDC. Since customers' expectations grow over time and the impact of EDC's actions takes time to translate into higher CSI scores, the 1999 target is to maintain customer satisfaction at the current level.

	1999 Target	**1998 Actual**	1998 Target	1997 Actual
CSI score (out of 100)	*	**79.8**	*	79.5

* Maintain customer satisfaction at the current level.

Internal Efficiency

Prior to 1998 EDC tracked its internal efficiency through its productivity ratio which is the volume of business signed during the year per dollar spent on administration. The internal efficiency measure was changed in 1998 to better reflect the market practice of measuring administrative expenses as a percentage of operating income (exclusive of provision for credit losses). While EDC was well within its target ratio in 1998, the ratio is expected to increase in 1999 due to significant investments planned in technology and the incremental costs associated with expanding EDC's workforce.

($ in millions)	1999 Target	**1998 Actual**	1998 Target	1997 Actual
Administrative expenses		**81**		69
Operating income		**649**		492
Internal efficiency ratio	<16%	**12.5%**	<16%	14.0%

Financial Results

EDC recognizes the need to secure a solid financial foundation to ensure long-term competitive support to its customers. As such, the Corporation needs to augment its capital base through retention of net income in order to meet the growing demands of its customers and to take on more risk on their behalf. EDC generated a net income of $135 million for 1998, well within the target range.

($ in millions)	1999 Target	**1998 Actual**	1998 Target	1997 Actual
Net income	*	**$135**	$100-$200	$128

* This measure is being replaced in 1999 with the financial sustainability ratio.

A new measure, the ratio of adjusted operating income* to the year's average capital and allowances, referred to as the financial sustainability ratio was introduced in 1998. This ratio measures the organization's capacity to generate operating income in order to build up the capital base to support more business. In 1998 EDC's financial sustainability ratio was 14.8%.

($ in millions)	1999 Target	**1998 Actual**	1998 Target	1997 Actual
Adjusted operating income*		**568**		423
Average capital and allowances		**3,843**		3,295
Financial sustainability ratio	13.5%-15%	**14.8%**	**	12.8%

* Represents operating income net of administrative expenses.

** The financial sustainability ratio was not included as a performance measure in 1998.

OPERATING HIGHLIGHTS

Income Statement Discussion

Net Income

Net income reported for 1998 was $135 million, an increase of $7 million over the 1997 level of $128 million. The volume increases, both in financing and insurance, generated a $146 million increase in net interest income and an $11 million increase in premium and fee revenue. These effects were offset by a higher provision for credit losses to reflect the growth in the commercial portfolio as well as the credit deterioration in Southeast Asia. In addition, administrative expenses increased in response to the costs associated with the Corporation's expanding workforce and investments in technology.

The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	1998	1997	1996	1995	1994
Net income	135	128	112	44	171
Shareholder's equity	1,680	1,545	1,417	1,173	1,091
Return (%) on shareholder's equity	8.0%	8.3%	7.9%	3.8%	15.7%

Net Interest Income

Net interest income increased by $146 million to $539 million from the 1997 level of $393 million.

For 1998, net interest income was $539 million on average assets employed of $16,292 million, yielding a net margin of 3.31%. The net margin is defined as net interest income expressed as a percentage of average assets employed.

The following table shows both net interest income, as reported in the financial statements, and adjusted net interest income. Commencing in 1996, cash receipts for impaired loans from either impaired borrowers or the Government of Canada through sovereign debt relief provided by Canada are not recorded as interest income until such time that any specific allowance has been reversed. These amounts are shown with the average assets employed over the last five years in the table below. No sovereign debt relief was recorded as interest income in 1998 (1997 – $3 million).

($ in millions)	1998	1997	1996	1995	1994
Average gross loans receivable	14,286	11,129	10,073	9,803	9,018
Average cash, marketable					
securities and investments	2,006	1,759	1,701	1,269	1,587
Total average assets employed	16,292	12,888	11,774	11,072	10,605
Interest income:					
Loans	1,055	782	688	813	754
Marketable securities & investments	126	92	99	87	59
Total interest income	1,181	874	787	900	813
Interest expense	642	481	437	485	458
Net interest income	539	393	350	415	355
Impaired interest income	–	3	–	127	230
Adjusted net interest income	$539	$390	$350	$288	$125

Interest Income – Loans

Loan interest income increased by $273 million in 1998, the result of substantial growth achieved in the loans portfolio.

For 1998, loan interest income was $1,055 million, an increase of $273 million or 35% from the level of $782 million in 1997. The performing fixed rate loans receivable averaged $5,906 million in 1998 (1997 – $4,685 million) with an average coupon rate of 7.60% (1997 – 7.94%). The yield on the fixed rate portfolio continued its gradual decline in 1998, due to the replacement of older loans earning the higher interest rates reflective of previous periods with current loan signings which carry the lower interest rates of recent years. The performing floating rate loans receivable averaged $6,519 million in 1998 (1997 – $4,575 million) with an average coupon rate of 6.66% (1997 – 6.22%). The yield on the floating rate portfolio increased primarily due to the widening of the interest rate spread in the below investment grade risk portfolio.

The average gross loans receivable increased by 28% to $14,286 million in 1998. The increase was due to record signings for direct financing of $6,639 million and unprecedented disbursements of $6,008 million in 1998 (1997 – $3,321 million).

The following table analyzes loan interest income as a percentage of the average loans receivable:

($ in millions)			1998	1997
	Increase/(decrease)			
	$	%	$	$
Loans receivable:				
Average performing fixed rate	1,221	26	**5,906**	4,685
Average performing floating rate	1,944	42	**6,519**	4,575
Average impaired	(8)	–	**1,861**	1,869
Average gross loans receivable	3,157	28	**14,286**	11,129
Interest income – loans:				
Performing fixed rate interest	75	20	**452**	377
Performing floating rate interest	151	52	**442**	291
Other loan interest	47	41	**161**	114
Total interest income – loans	$273	35%	**$1,055**	$782
Loan interest income as a percentage of average gross loans receivable			**7.4%**	7.0%

Other loan interest income includes $48 million (1997 – $42 million) relating to the amortization of non-accrued capitalized interest for performing loans previously classified as impaired. The refinancing of certain loans in the portfolio resulted in the accelerated recognition of $21 million (1997 – nil) to other loan interest income. The balance of other loan interest income of $92 million (1997 – $72 million) consists primarily of revenue from exposure, commitment, and administration fees driven by the strong growth in new direct financing.

Interest Income – Marketable Securities and Investments

Marketable securities and investment interest income increased by $34 million in 1998. The increase represents the higher average outstanding balance of the portfolio, as well as higher Canadian yields.

Marketable securities and investment interest income was $126 million for 1998 (1997 – $92 million) resulting in an average return of 6.3% (1997 – 5.2%). During 1998, the proportion of Canadian dollar denominated securities increased to 57% of the total average balance (1997 – 40%). This was due to the continuing strategy to increase the Canadian dollar portfolio in order to enhance yields. The increase in marketable securities and investment interest income is partially due to the early retirement of one investment where the settlement amount included, in addition to principal, an amount of $13 million representing interest that would have accrued had the investment remained outstanding until maturity. In addition, the average outstanding balance of the portfolio increased, along with an increase in Canada's Prime interest rate of 150 basis points which contributed to the higher interest income.

The following table analyzes marketable securities and investment interest income as a percentage of the average cash, marketable securities and investments:

($ in millions)			1998	1997
	Increase/(decrease)			
	$	%	$	$
Average cash and marketable securities	247	18	1,604	1,357
Average investments	–	–	402	402
Total	247	14	2,006	1,759
Interest income – marketable securities and investments	$34	37%	$126	$92
Interest income as a percentage of average cash, marketable securities and investments			6.3%	5.2%

Interest Expense

Interest expense increased by $161 million in 1998. This is a reflection of both the additional borrowing required to support the increased loan assets and the higher cost of funding for EDC during the year.

Interest expense for 1998 totaled $642 million, a 33% increment over the 1997 level of $481 million. The increase is the result of a higher level in borrowing as well as recent economic conditions. The borrowing environment for EDC has changed dramatically as a result of the decline in Asian markets. This has impacted the Corporation's ability to borrow at its planned volume and funding targets and, as a result, EDC increased its borrowings in short-term funding, primarily commercial paper.

The average loans payable balance increased by 30% to $10,979 million in 1998. Additional funding was required to support the growth in loan assets. The average cost of funding was 6.9% (1997 – 8.6%) for fixed rate payables and 5.7% (1997 – 4.7%) for floating rate payables.

Included in interest expense was a $13 million foreign exchange gain (1997 – $8 million gain).

The following table analyzes interest expense as a percentage of the average loans payable:

($ in millions)			1998	1997
	Increase/(decrease)			
	$	%	$	$
Loans payable:				
Average fixed rate	186	8	2,522	2,336
Average floating rate	2,343	39	8,414	6,071
Average deferrals, unamortized discounts and premiums	(5)	(10)	43	48
Average total loans payable	2,524	30	10,979	8,455
Interest expense:				
Fixed net interest	(27)	(13)	175	202
Floating net interest	193	67	480	287
Foreign exchange translation gain	(5)	(63)	(13)	(8)
Total interest expense	$161	33%	$642	$481
Interest expense as a percentage of average loans payable			5.8%	5.7%

Insurance Premiums and Guarantee Fees

Insurance premiums have increased as a direct result of the increase in insurance volumes in both the medium-term and short-term programs.

Premium and fee revenue of $110 million was recorded for 1998, an 11% increase over the 1997 level of $99 million. Total premiums and fees earned as a percentage of insured volumes and average loan guarantees exposure decreased from 0.42% in 1997 to 0.38% in 1998. The average premium rate in both the short-term and medium-term programs decreased largely due to increased volumes of business in lower-risk markets.

The following table analyzes insurance premiums and guarantee fees as a percentage of insured volumes and average loan guarantees exposure:

($ in millions)	1998		1997	
	$	%	$	%
Short-term program:				
Insured volumes	23,990		20,332	
Premiums and fees earned	80	.33	73	.36
Medium-term program:				
Insured volumes	4,122		2,850	
Premiums and fees earned	24	.58	22	.77
Loan guarantees average exposure	826		576	
Loan guarantee fees earned	6	.73	4	.69
Total average premium and fee rate		.38%		.42%

Short-term insurance revenues contributed $80 million or 77% of 1998 premium revenue, an increase of 10% over 1997. This was the direct result of the growth in short-term insurance volumes which increased by $3.7 billion, or 18% over 1997.

The medium-term program revenues for the year were $24 million, an increase of 9% over 1997 revenues. Volumes in the medium-term insurance program increased by $1.3 billion, or 45% over 1997. This increase was primarily due to the growth in both the performance security and political risk programs which increased by $695 million and $398 million from 1997 levels.

Provision for Credit Losses

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	1998	1997	1996	1995	1994
Provision for credit losses pertaining to:					
Loans	313	184	190	327	137
Insurance	88	59	68	49	40
Loan guarantees	32	52	12	14	3
Total provision for credit losses	$433	$295	$270	$390	$180

The Corporation assesses the carrying value of its loan assets periodically during the year as required and in detail as at the date of the financial statements to determine the appropriate allowance necessary to maintain its financial integrity. During 1998, a charge for the provision for losses on loans was made to the income statement in the amount of $313 million (1997 – $184 million). Of the $313 million, approximately $108 million was the result of credit deterioration. The balance was the result of the significant growth in the commercial loans portfolio. The strong continuing growth in the commercial portfolio and the magnitude of the provision for credit losses are evidence of the Corporation's continuing commitment to prudent asset management policies.

During the year, there was an $88 million charge to the income statement for the provision for insurance claims. The increase in current insurance claim provisioning levels was the result of the year-end actuarial allowance valuation based on continued growth in the insurance portfolio.

The Corporation assesses the loan guarantees on the same basis as direct loans. During 1998, a charge for the provision for losses on loan guarantees was made to the income statement in the amount of $32 million (1997 – $52 million). The charge of $32 million was due to the significant growth in commercial loan guarantees.

Administrative Expenses

Net administrative expenses for 1998 totaled $81 million, an increase of 17% from the prior year. The additional administrative expenses were primarily due to employing more staff to support the growth in business volumes. Consequently, this resulted in increased expenditures for salaries, benefits, and technology for 1998. Expressed as a percentage of operating income, however, administrative expenses declined to 12.5% in 1998 from 14.0% in 1997.

Corporate Plan Discussion

Comparison to 1998 Corporate Plan

Business volume for 1998 reached a record $34.8 billion, an increase of 21% over the 1997 level of $28.6 billion and surpassing the 1998 planned volume of $32.7 billion. This increase over Plan was due to the financing and medium-term insurance volumes exceeding Plan by $2.1 billion combined. Included in this increase is $1.2 billion related to the signing of a loan guarantee in 1998.

The impact on the Corporation's balance sheet of the increased activity in recent years in the loans signings volume was substantial, generating a 23% increase in net loans receivable and a 17% increase in loans payable over the 1998 Plan. Loans payable did not increase to the same extent as the loan assets because cash and investments were decreased by 20% of the Plan thereby reducing EDC's funding requirements.

The 1998 net income of $135 million fell short of the $155 million projected in the 1998 Corporate Plan. While net interest income and insurance premiums and guarantee fees exceeded planned amounts by $79 million as a result of higher than anticipated business volumes for 1998, these increases were offset by a $99 million increase in the provision for credit losses over Plan. The provision increased in excess of planned amounts due to the increased volume in commercial markets as well as the result of credit deterioration in Southeast Asia.

1999 Corporate Plan

The Corporate Plan projects 1999 business volume to reach $35.0 billion, however, revised estimates based on information available subsequent to the Plan's publication indicate that this will likely be exceeded and a more realistic target for 1999 is $37.0 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 1999 and the large amount of undisbursed loans with respect to signings from prior years. The allowance for losses on loans is expected to increase to reflect these higher disbursements which are largely taking place in the commercial sector and have a higher risk profile. In summary, planned total assets in 1999 will increase to $16.6 billion from $15.3 billion in 1998, liabilities will increase to $14.7 billion from $13.6 billion and shareholder's equity will increase to $1.9 billion.

As can be seen from the table, for 1999, the major planned income variances from the 1998 actual results are represented by higher net interest income due to the planned increased loans and liquidity portfolios and increased insurance premiums and fees to reflect the planned growth in insurance volumes. This will be partially offset by increased provisions for credit losses and administrative expenses. Provisions will increase to reflect the additional credit risks resulting from the expanding loans portfolio. Administrative expenses are expected to increase by $22 million in 1999 due primarily to a larger workforce, investments in technology and costs related to the Year 2000.

($ in millions)	1999	1998	1998
	Corporate Plan	**Actual Results**	Corporate Plan
Income Statement			
Interest income			
Loans	1,202	**1,055**	938
Marketable securities and investments*	146	**126**	124
	1,348	**1,181**	1,062
Interest expense	763	**642**	596
Net interest income	585	**539**	466
Insurance premiums and guarantee fees	124	**110**	104
Provision for credit losses	446	**433**	334
Income after provision for credit losses	263	**216**	236
Administrative expenses	103	**81**	81
Net income*	$160	**$135**	$155

* 1998 Plan amounts have been restated to reflect the consolidated Plan as presented in the 1999 Corporate Plan.

RISK MANAGEMENT

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore, prudently manage these risks to ensure its long-term financial health. The key risks managed by EDC in its business are credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs, and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

In order to better understand and respond to the needs of the Canadian exporter, the Corporation is organized into business teams along industry sectors. Significant potential transactions with respect to credit risk and structure are reviewed and endorsed by the Risk Management Office or the Executive Risk Management Committee prior to authorization. Country limits are established and regularly reviewed based on constant monitoring and country risk assessment updates by the Economics department to take into consideration any changes within the world environment. During 1998, a new committee of the Board of Directors, the Risk Management Committee, was set up with the responsibility of overseeing EDC's risk management strategies and policies and reporting to the Board on compliance therewith and the management of credit exposures. The Corporation is continuously reviewing its processes and systems in order to improve the administration and assessment of credit risk on all agreements associated with financing, treasury and insurance transactions. Counterparty exposure and location are monitored on a regular basis for credit risk.

CONCENTRATION OF EXPOSURE

The following table reflects the major concentrations of total commercial and sovereign exposure in the country where the ultimate risk resided for all operations at the end of 1998. The countries identified below account for 69% of the Corporation's total exposure.

Country	Gross loans receivable	Undisbursed commitment	Contingent liabilities Short-term	Contingent liabilities Medium-term	Investments & derivative financial instruments*	1998 Exposure	
($ in millions)						$	%
U.S.	3,795	1,702	2,538	1,377	691	10,103	28
Canada	984**	1,236**	1,024	674***	1,023	4,941	13
China	1,221	773	226	153	–	2,373	7
U.K.	710	468	155	223	2	1,558	4
Brazil	707	14	353	301	–	1,375	4
Indonesia	845	161	9	214	–	1,229	3
Mexico	625	96	278	15	–	1,014	3
Venezuela	500	348	59	16	–	923	3
Colombia	557	1	39	303	–	900	2
Peru	740	103	20	34	–	897	2
Other	5,840	911	2,149	1,634	610	11,144	31
Total	$16,524	$5,813	$6,850	$4,944	$2,326	$36,457	100%

* Investments include amounts represented by cash, marketable securities and investments.

** Includes the impact of one transaction signed in 1997 for $1,497 million with recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

*** Includes $659 million of surety bond insurance. A total of 86% of the exports insured in the surety bond program are to the United States.

LOANS PORTFOLIO

> *The loans portfolio experienced rapid growth in 1998, with gross loans receivable increasing by 34% or $4,151 million over the 1997 level.*

Gross loans receivable increased by $4,151 million from the 1997 level of $12,373 million to $16,524 million as at December 31, 1998. Most of this increase was fueled by the rapid growth of the loans portfolio, with disbursements exceeding repayments by $3,115 million. The remaining increase of $1,036 million was the result of foreign exchange translation and the capitalization of interest. The Corporation's loans portfolio is predominantly denominated in U.S. dollars, and, as a result, a significant portion of the increase in loan assets over 1997 is due to foreign exchange translation. The Corporation disbursed $6,008 million in 1998, surpassing the 1997 record of $3,321 million by $2,687 million, an increase of 81%. For 1998, loan repayments amounted to $2,893 million (1997 – $1,860 million). The large increase in loan repayments over 1997 was the result of an unparalleled number of early settlements of loan assets totaling $611 million. Included in the loan repayments are amounts received from the Government of Canada for sovereign debt relief provided by Canada, mainly relating to principal, of $97 million (1997 – $17 million).

Loan Asset Quality

> *Commercial loans now comprise 60% of the Corporation's performing gross loans receivable, up from 50% in 1997, reflecting the continued movement in the portfolio from sovereign to commercial assets.*

The performing gross loans receivable grew significantly in 1998, moving to $14,595 million from the 1997 balance of $10,588 million. The increase is due to the continued record growth in commercial loans from $5,271 million to $8,829 million. The sovereign performing portfolio increased only slightly from $5,317 million to $5,766 million. These changes highlight the movement in the Corporation's loans portfolio from sovereign to commercial loan assets. In 1998, new direct financing to commercial borrowers accounted for 92% of total financing volume.

During 1998, impaired loans, as a percentage of total gross loans receivable, continued to decrease, from 14% to 12%. This was the result of the rapid growth in the total gross loans receivable. In 1998, there were no impaired loans reclassified to performing and one loan ($40 million) was added to the impaired category. No loans were written off in 1998 (1997 – $18 million).

Impaired Loans

Cash received, including both principal and interest, from the impaired portfolio since 1994 has averaged approximately 4% of the total portfolio.

The following cash flows pertain to sovereign debtors and represent, to a large extent, the long-term efforts of multilateral rescheduling arrangements through the Paris Club.

($ in millions)	**1998**	1997	1996	1995	1994
Average impaired gross loans receivable	**1,861**	1,869	1,919	2,247	2,862
Impaired receipts (principal and interest)	**62**	86	89	182	115
Cash flow as a percentage of average loans	**3.33%**	4.60%	4.64%	8.10%	4.02%

Payments received from the Government of Canada for debt relief provided by Canada for sovereign impaired loans were $97 million in 1998. These payments related to impaired loans in Côte d'Ivoire ($48 million), Cameroon ($45 million), and Congo ($4 million). These amounts are not included as receipts in the above chart.

The largest receipts for impaired loans including contractual principal and interest from sovereign borrowers were as noted:

($ in millions)	**1998**		1997
Peru	**37**	Peru	32
Cameroon	**12**	Venezuela	11
Russia	**6**	Cameroon	10
Côte d'Ivoire	**3**	Gabon	8
Gabon	**2**	Russia	6
Other	**2**	Other	19
Total	**$62**	Total	$86

The Corporation expects continued payments from Peru in 1999 and will review the possibility of restoring Peru's outstanding impaired portfolio of $673 million to performing status.

Loan Asset Risk Concentration

Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

($ in millions)		1998			1997
	$	%		$	%
China	1,221	21	China	1,155	22
Algeria	523	9	Indonesia	457	9
Indonesia	488	8	Algeria	448	8
Venezuela	438	8	Venezuela	372	7
Canada	424	7	Brazil	290	5
Other	2,672	47	Other	2,595	49
Total	$5,766	100%	Total	$5,317	100%

Generally, the level of concentration has not increased for sovereign counterparties. The growth in the sovereign performing gross loans receivable was influenced more by foreign exchange translation rather than real growth in the loans receivable. In addition, only 8% of all additional direct financing in 1998 was to sovereign borrowers.

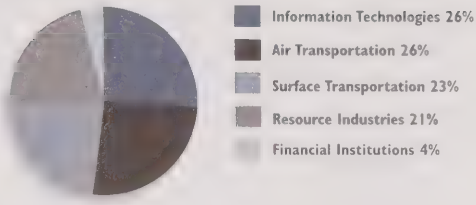
The largest undisbursed loan commitments by sovereign obligor are as follows:

($ in millions)		1998			1997
	$	%		$	%
Canada	1,130	42	Canada	1,272	43
China	743	28	China	923	31
Venezuela	282	11	Venezuela	187	6
Algeria	96	4	Algeria	122	4
Turkey	65	2	Turkey	112	4
Other	344	13	Other	330	12
Total	$2,660	100%	Total	$2,946	100%

The 10% decline in undisbursed loan commitments to sovereign obligors is further evidence of the shift in the future direction of the Corporation's portfolio from sovereign to commercial direct financing. Exposure, defined as the sum of performing loans receivable and undisbursed commitments, to China is $1,964 million or 23% of the total sovereign exposure. This represents the Corporation's largest single sovereign risk concentration.

Commercial Loans

Total Performing Commercial Loans Exposure

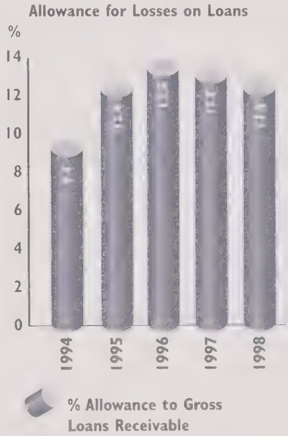


The commercial loans portfolio is effectively diversified across four major industry sectors. Each sector now represents approximately 25% of the Corporation's total commercial exposure of $11,982 million.

Risk concentration becomes significant when the sum of the loans receivable and the undisbursed commitments, referred to as exposure, is taken into consideration. Five counterparties comprising the Corporation's largest commercial exposure balances collectively represent 30% or $3,562 million of the total performing commercial exposure. The largest single performing commercial exposure, to a company from the Surface Transportation sector in the United States, is $1,733 million or 14% of the total performing commercial exposure. The Corporation has effectively achieved a portfolio diversified among four major industry sectors; however, the challenge facing EDC is to continue to manage risk concentration with respect to single counterparties.

Allowance for Losses on Loans

Allowance for Losses on Loans



EDC continues its commitment to prudent risk management by maintaining a conservative level of allowances for losses on loans.

During 1998, the allowance for losses on loans increased by $432 million or 27% to $2,060 million from the December 31, 1997 balance of $1,628 million. The 1998 charge to the income statement for the loan loss provision was $313 million (1997 – $184 million). The allowance as a percentage of gross loans receivable decreased slightly to 12.5% compared to 13.2% in 1997.

The Corporation categorizes its performing commercial and sovereign loans using a rating system of 1 to 4 (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. For impaired loans, a specific allowance is determined based on discounted projected cash flows.

Sovereign Allowance

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to classify unrated countries relative to those that are rated. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

The 1998 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)			1998			1997
Provision category*	**Allowance**	**Exposure****	%	Allowance	Exposure**	%
1 High investment grade, >A3	**1**	**531**	**–**	1	284	–
2 Medium investment grade, = Baa1 to Baa3	**32**	**1,598**	**2**	31	1,539	2
3 Below investment grade, = Ba1 to Ba3	**107**	**1,069**	**10**	171	1,713	10
4 Speculative, < Ba3	**517**	**2,354**	**22**	337	1,530	22
5 Impaired	**296**	**746**	**40**	390	851	46
Total	**$953**	**$6,298**	**15%**	$930	$5,917	16%

* Moody's long-term rating.

** Exposure includes gross loans receivable, net of non-accrued capitalized interest.

The sovereign allowance increased by $23 million from the 1997 level of $930 million. A decline of $94 million in the portion of the allowance relating to impaired sovereign loans was due to a number of factors. Since cash receipts from impaired borrowers and the Government of Canada for debt relief provided by Canada are applied to the book value of these loans, this reduction in book value translates into a reduction in the allowance. The estimated future cash flows and the non-accrued capitalized interest on impaired loans increased, both of which caused a reduction to the required allowance. The sovereign allowance on performing loans increased by $72 million as a result of credit deterioration, as evidenced by external credit-rating agencies, in Southeast Asia.

The following table outlines the effect of these changes on the allowance for losses on sovereign loans:

($ in millions)	1998
Balance at beginning of year	930
Credit migration	72
Portfolio growth	1
Revaluation of impaired loans	(94)
Foreign exchange	44
Balance at end of year	$953

Commercial Allowance

The Corporation undertakes loan reviews to assess the financial condition of the borrowers or guarantors and their ability to meet their obligations to EDC. When available, the Corporation utilizes external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When these ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate classification for a particular loan. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool. The rates are then applied to exposure to derive a general allowance for performing loans.

The 1998 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)			1998			1997
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
1 High investment grade, >A3	42	2,350	2	30	1,704	2
2 Medium investment grade, = Baa1 to Baa3	88	2,298	4	31	856	4
3 Below investment grade, = Ba1 to Ba3	248	1,789	14	195	1,390	14
4 Speculative, < Ba3	604	2,392	25	344	1,321	26
5 Impaired	125	142	88	98	103	95
Total	$1,107	$8,971	12%	$698	$5,374	13%

* Moody's long-term rating.

** Exposure includes gross loans receivable, net of non-accrued capitalized interest.

The commercial allowance increased by $409 million to $1,107 million from $698 million a year earlier. The commercial allowance for performing loans increased by $382 million as a result of the significant increase in the performing portfolio. The prudential build-up of the general allowance is in line with the increases in exposure and risk rating of that exposure.

Strong asset performance is the primary reason for the insignificant increase in impaired loan exposure relative to the unprecedented increase in the performing commercial loans portfolio of $3,558 million.

The following table outlines the changes to the allowance for losses on commercial loans:

($ in millions)	1998
Balance at beginning of year	698
Credit migration	36
Portfolio growth	275
Increase due to additional impaired loans	23
Foreign exchange	75
Balance at end of year	$1,107

Loan Commitments

The following table profiles the committed undisbursed loan balances by credit-rating grade:

($ in millions)						
Provision category*	Sovereign	%	Commercial	%	Total	%
1 High investment grade, >A3	1,138	43	1,163	37	2,301	40
2 Medium investment grade, = Baa1 to Baa3	792	30	268	8	1,060	18
3 Below investment grade, = Ba1 to Ba3	98	4	890	28	988	17
4 Speculative, < Ba3	632	23	832	27	1,464	25
Total	$2,660	100%	$3,153	100%	$5,813	100%

* Moody's long-term rating.

The largest balance of undisbursed loans was in the high investment grade (>A3) category, comprising $2,301 million or 40% of the total undisbursed loan commitments. The $2,301 million is approportioned equally between sovereign and commercial high investment grade undisbursed balances. The large concentration in the medium to high investment grade categories, 58%, is the result of several factors including the significant growth in the commercial portfolio and the distribution of the growth in new direct financing among all four risk categories. The speculative grade category (<Ba3) making up 25% of the total undisbursed commitments is down from 28% in 1997.

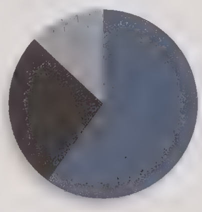
INSURANCE PORTFOLIO

Contingent Liabilities

The Corporation's contingent liabilities increased by 35% to $11,794 million in 1998.

Insurance policies in force and guarantees increased during 1998 to $11,794 million from the 1997 level of $8,724 million, an increment of $3,070 million, or 35%. The medium-term program increased by $1,920 million, or 63% from the 1997 level of $3,024 million and the short-term program increased by $1,150 million, or 20% from the 1997 level of $5,700 million.

At December 31, 1998, there was a shift towards longer policy terms when compared to contingent liabilities outstanding at December 31, 1997. At the end of 1998 policies with terms of less than one year comprised 60% of the total contingent liabilities, whereas at the end of 1997 policies with terms of less than one year accounted for 68% of the portfolio. This change is largely due to the relative increase in volumes in the medium-term program during 1998 mainly in the performance security and political risk programs.



Short-Term Program

Size Concentration

During 1998, the short-term program supported 3,352 customers. In terms of total declared volume, the top five customers represented 20% of the total 1998 declared volumes (1997 – 22%). The number of policyholders with declared volume of over $10 million per year has been steadily increasing over the last several years. Risk concentration has been growing in the short-term portfolio where large (over $10 million) buyers now account for more than 29% of the total value of authorizations. This risk has been taken into account by the increase in the year-end actuarial claims valuation.

The following table shows the number of buyers classified by exposure size within the short-term portfolio:

$ Value of exposure *($ in thousands)*	Increase Number	Increase %	1998 Number of buyers	1997 Number of buyers
1-500	8,663	29	**38,572**	29,909
501-2,000	430	13	**3,700**	3,270
2,001-5,000	136	17	**949**	813
5,001-10,000	26	9	**316**	290
10,001 and over	50	24	**258**	208
Total	9,305	27%	**43,795**	34,490

Country Concentration

The top five countries represent $4,482 million, or 65% of the total short-term contingent liability of $6,850 million. The level of concentration has decreased from the 1997 level of 72%. The country with the largest concentration continues to be the United States, representing 37% of all short-term contingent liabilities outstanding.

The largest concentrations within the short-term program are in the following countries:

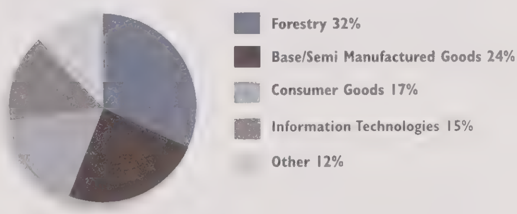
($ in millions)	1998			1997	
	$	%		$	%
U.S.	2,538	37	U.S.	2,317	41
Canada	1,024	15	Canada	975	17
Brazil	353	5	Japan	332	6
Japan	289	4	Mexico	297	5
Mexico	278	4	Brazil	176	3
Other	2,368	35	Other	1,603	28
Total	$6,850	100%	Total	$5,700	100%

The Corporation rates country risk on a scale from 1 to 4 (high investment grade to speculative grade). The comparative spread of risk in terms of country risk classification within the short-term contingent liabilities has remained relatively unchanged from 1997 levels. The largest balance of short-term contingent liabilities is within category 1 countries which now represent $4,992 million, or 73% of total short-term contingent liabilities.

Industry Concentration

In terms of overall percentage concentration by industry sector/business team, there was a 7% decrease in the forestry sector offset by a 4% increase in the base/semi-manufactured goods sector and a 3% increase in the information technologies sector when compared with 1997 results.

Short-Term Contingent Liabilities



Medium-Term Insurance Program and Guarantees

Size Concentration

During 1998, 383 customers were supported in the medium-term program (1997 – 308). The top five customers represented 62% of the 1998 medium-term insurance policies and guarantees in force (1997 – 37%). This increase is due to the signing of a loan guarantee in 1998 with undisbursed and receivable loan commitments of $1.2 billion. The five largest policies and loan guarantees as at December 31, 1998 represent 38% (1997 – 25%) of the total medium-term policies and guarantees in force.

Country Concentration

As at December 31, 1998, the medium-term contingent liability portfolio comprises 1,442 transactions in 112 countries (1997 – 1,265 transactions in 104 countries) with an average exposure of $3 million (1997 – $2 million).

The largest contingent liabilities in terms of ultimate risk within the medium-term portfolio are in the following countries:

($ in millions)	1998			1997	
	$	%		$	%
U.S.	1,377	28	Canada	443	15
Canada	674	14	Turkey	254	8
Colombia	303	6	Argentina	246	8
Brazil	301	6	U.K.	240	8
Turkey	256	5	Colombia	215	7
Other	2,033	41	Other	1,626	54
Total	$4,944	100%	Total	$3,024	100%

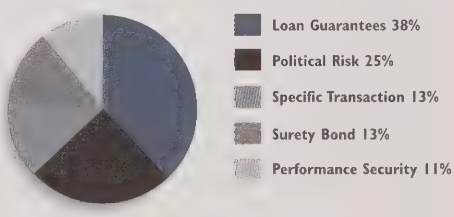
The country with the largest concentration in terms of contingent liabilities is the United States. Most of this amount ($1,318 million) represents guarantees to support loan agreements. Exposure in Canada is made up largely ($659 million) of surety bond insurance (1997 – $425 million), 86% of which is to support exports to the United States (1997 – 90%). The five countries with the largest contingent liabilities represent 59% of the total medium-term contingent liabilities (1997 – 46%).

In terms of country risk concentration, there was an improvement in country risk quality within the medium-term contingent liabilities as at December 31, 1998 compared to December 31, 1997. The aggregate concentration within the lower risk countries (category 1 and 2) increased to 62% from the 1997 level of 53%.

Program Concentration

The program with the largest increase in contingent liabilities during 1998 was the loan guarantee program. Loan guarantee exposure has increased from $564 million in 1997 to $1,874 million in 1998. This is primarily due to the signing of a loan guarantee in 1998 with undisbursed and receivable loan commitments of $1.2 billion.

Concentration by Program



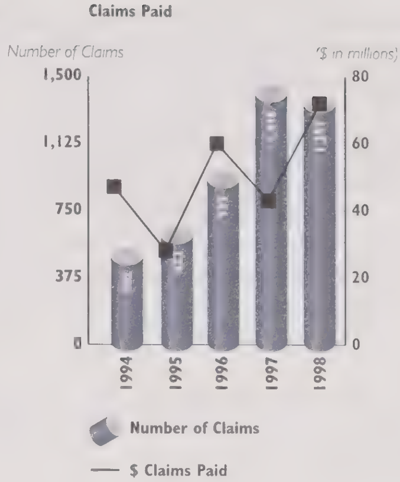
Claims Experience

($ in millions)	1998	1997
Claims paid	72	43
Claims recovered	19	16
Net claims	$53	$27

Despite an increase in claim payments of 67% to $72 million in 1998, claims paid as a percentage of contingent liabilities over the past five years has remained relatively constant, with an average of 0.71%.

The number of claims paid in 1998, primarily for default and insolvency, decreased by 4% from 1997, however, the dollar value of these claims jumped by 67%.

In 1998, the Corporation paid 1,357 claims in 60 countries for a total of $72 million and recovered $19 million. During the same period in 1997, the Corporation paid 1,416 claims in 52 countries for a total of $43 million and recovered $16 million.



Insurance Claims Paid by Geographic Market

($ in millions)	1998				1997			
Geographic Market	Default	Insolvency	Other	Total	Default	Insolvency	Other	Total
Africa and Middle East	3	–	1	4	–	–	1	1
Asia and Pacific	10	6	1	17	1	1	–	2
Europe	2	10	–	12	1	2	–	3
South America	5	–	–	5	1	–	1	2
North America and Caribbean*	21	8	5	34	19	16	–	35
Total	$41	$24	$7	$72	$22	$19	$2	$43

* includes Mexico

The $14 million increase from 1997 in default and insolvency claims paid in Asia and Pacific is largely due to increases in claim payments on behalf of customers' losses in India ($5 million), Taiwan ($3 million), Japan ($2 million) and Indonesia ($1 million). The increase in default and insolvency claims paid in Europe is the result of the large amount of claim payments ($10 million) to cover customers' losses in Italy in 1998. Default claim payments on behalf of customers' losses in Brazil ($2 million) and Chile ($1 million) account for most of the increase in default and insolvency claim payments in South America. Finally, the overall decrease in default and insolvency claims paid within North America and the Caribbean is mainly due to decreases in the United States ($5 million) and Canada ($3 million).

Insurance Claims Paid by Risk Type

Over the last five years there has been a significant shift from claims paid to cover sovereign risks to claims paid to cover commercial risks. The following table shows claims paid to cover sovereign versus commercial risk as a percentage of total claim payments.

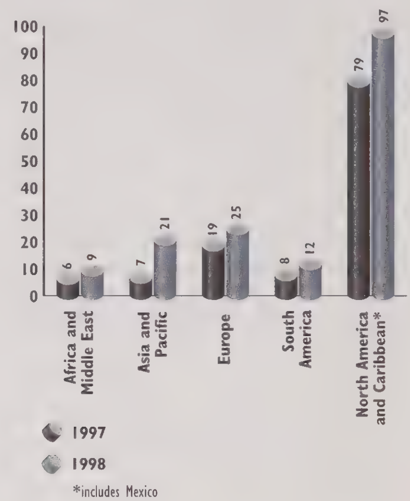
Year	Commercial Risk	Sovereign Risk
1994	37%	63%
1995	89%	11%
1996	67%	33%
1997	100%	0%
1998	100%	0%

The most common types of claims paid under sovereign risk include expropriation, transfer risk, conversion risk and war. The claims paid under commercial risk include call of bond, default, insolvency, repudiation and termination of contract.

Claims Paid and Outstanding

As at December 31, 1998 the Corporation has $164 million in claims paid and outstanding to 79 countries, (1997 – $119 million to 72 countries) with estimated recoveries of $44 million (1997 – $28 million).

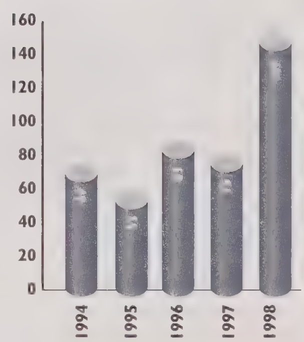
Claims Paid & Outstanding by Geographic Market
($ in millions)



Claims Submitted

During 1998, exporters submitted requests for claim payments totalling $147 million, an increase of 96% over the value of the claims submitted in 1997. At the end of 1998, the value of the claims requests that were still under consideration was $62 million. The five largest concentrations are related to claims pending for losses in the United States ($28 million), Pakistan ($14 million), China ($7 million), Russia ($5 million) and the United Kingdom ($2 million).

Claims Submitted
($ in millions)



Allowance for Claims on Insurance and Guarantees

The total allowance for claims on insurance and guarantees as a percentage of contingent liabilities has increased slightly over the last five years.

As at December 31, 1998, the allowance for claims on insurance and guarantees is $436 million, an increase of $100 million or 30% over the 1997 allowance of $336 million. The increase is primarily attributable to the continued growth in both the short-term and medium-term insurance portfolios. During 1998, $120 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. Charges to the allowance of $39 million due to write-downs of the recoverable insurance claims account were offset by an increase of $19 million due to foreign exchange fluctuation.

Of the $39 million in write-downs, the five largest concentrations were related to claims paid and outstanding on behalf of customers' losses in the United States ($11 million), Canada ($4 million), India ($3 million), Mexico ($3 million), and Italy ($3 million). Ninety-two percent of the total write-down amount was in the short-term program.

The allowance for claims on insurance and guarantees as a percentage of total contingent liabilities is as follows:

($ in millions)	1998	1997	1996	1995	1994
Allowance for claims on insurance and guarantees	436	336	240	204	158
Contingent liabilities	11,794	8,724	7,432	6,214	5,340
Allowance for claims on insurance and guarantees as a percentage of contingent liabilities	3.7%	3.9%	3.2%	3.3%	3.0%

TREASURY CREDIT RISK

Treasury credit risk is the credit risk associated with EDC's holdings of interest bearing deposits, marketable securities, investments and derivative financial instruments. For interest bearing deposits, marketable securities and investments the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. The Corporation's risk management guidelines limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded and in such cases management will determine appropriate action. In December 1998, a downgrade of one of EDC's counterparties caused the credit exposure on two contracts to exceed the current limit set for those contracts' term to maturity. EDC is currently negotiating with the counterparty to terminate the financial instruments.

The following table provides a breakdown, by credit rating, of EDC's Treasury credit risk exposure:

($ in millions)					
	Remaining term to maturity				
Credit rating*	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Aaa	183	164	44	15	406
Aa1	247	241	59	61	608
Aa2	257	93	39	44	433
Aa3	255	270	90	38	653
A1	10	–	48	36	94
A2	93	39	–	–	132
Total	$1,045	$807	$280	$194	$2,326

* Moody's long-term rating.

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. The portfolios are fixed rate, floating rate and investments. These portfolios are predominantly in Canadian and U.S. dollars.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets daily and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Audit Committee of the Board, and to the Board of Directors.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities and/or interest rate resets between assets and liabilities. All portfolios are in compliance with the Corporation's risk management guidelines.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis. The exposure to foreign exchange risk is within the Corporation's risk management guidelines.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and managed within guidelines and policies. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC continues to improve analytical techniques, information systems and reporting to enhance the evaluation and control of risk. The Treasury Risk Management Policies are reviewed annually with the Corporation's Board of Directors.

EDC endeavours to match the average term of assets and liabilities on a portfolio basis. The following table provides a breakdown of EDC's fixed rate, floating rate, and investment portfolios.

($ in millions)	Total (CAD equiv.)	%	Canadian dollars	U.S. dollars	Other currencies (CAD equiv.)
Investments	1,539	9	983	354	14
Floating rate portfolio	9,755	54	957	4,907	1,288
Fixed rate portfolio	6,769	37	217	4,263	27

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities to manage the risk profile of the Corporation.

FUNDING

Loans payable increased by 32% in 1998 to $12.6 billion. This increase was primarily in response to the growth of EDC's loan asset portfolio and was largely accomplished by the issuance of structured floating rate debt and commercial paper.

In accordance with the Export Development Act and the Financial Administration Act, EDC funds its capital requirements in domestic and international capital markets through issuance of bonds, debentures, notes and other evidence of indebtedness. EDC attempts to minimize the cost of borrowing while prudently managing market risks (interest rate and foreign exchange) and Treasury credit risks.

EDC, as an agent of Her Majesty in the right of Canada, carries the full faith and credit of the Government of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

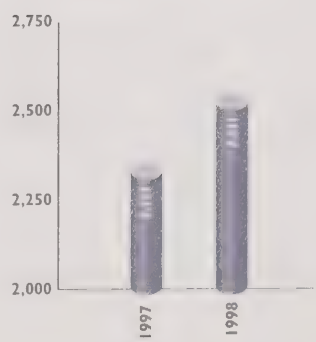
EDC has the following credit ratings:

	Domestic		Foreign currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa2	P-1
Standard & Poors	AAA	A-1+	AA+	A-1+
Japan Credit Rating Agency	AAA	–	AAA	–

Fixed Rate Payables

EDC's fixed rate payables portfolio increased by $194 million from the prior year. This increase was caused by an issue of a fixed rate bond offset slightly by fixed rate bonds that matured during 1998. All other fixed rate borrowings for the year were swapped into floating rate debt.

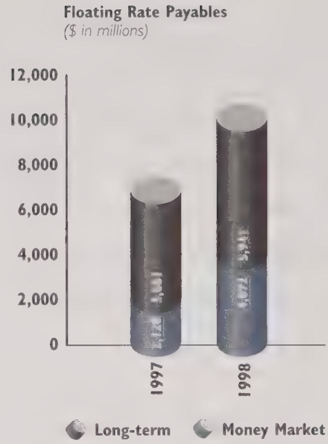
Fixed Rate Payables
($ in millions)



Floating Rate Payables

EDC's floating rate debt is comprised of both short-term (money market) and long-term debt.

Money market payables primarily consist of commercial paper, which the Corporation raises in both North American and European markets. The short-term floating rate portfolio increased by 92% from the previous year to $4,072 million. This is due to market tone and conditions in the second half of the year that made it difficult to borrow successfully in the bond market. As a result, the Corporation has focused on borrowing in the short-term money markets until such time as favourable market conditions return.



The long-term floating rate debt consists of liabilities whose rates reset on a regular, recurring basis. A large proportion of the long-term floating rate payables portfolio has been created by issuing fixed rate debt and then entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. During 1998, EDC issued $2,585 million in new, long-term floating rate debt, most of which was structured product. EDC bought back $208 million of long-term floating rate debt in 1998. These buybacks were undertaken to support EDC's investor relations, and the amounts bought back were refinanced with new issues. Gains or losses on buybacks are generally being amortized over the life of the refinancing. Overall, the long-term floating rate payables increased 17% from the previous year to $5,941 million. Similar to the short-term payables, the increase resulted from larger loans receivable balances as well as the impact of foreign exchange translation on the predominantly U.S. dollar based loans payable portfolio.

Capitalization

The gross assets of the Corporation are $18.6 billion (1997 – $14.6 billion) which are supported by shareholder's equity and allowances of $4.2 billion (1997 – $3.5 billion). At this level of capitalization, 23% of the Corporation's assets do not require external debt financing (1997 – 24%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	**1998**	1997	1996	1995	1994
Shareholder's equity:					
Capital	**983**	983	983	851	813
Retained earnings	**697**	562	434	322	278
Sub-total	**1,680**	1,545	1,417	1,173	1,091
Allowances	**2,516**	1,984	1,683	1,457	1,097
Total capitalization	**$4,196**	$3,529	$3,100	$2,630	$2,188

Derivatives

> *EDC utilizes a variety of derivatives to manage costs, returns, and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to: currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures, and options.*

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Treasury Risk Management department formally reviews EDC derivative financial instrument transactions at time of inception, and on an ongoing basis, to provide an independent verification on the valuation of transaction structures, and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Treasury Risk Management department to the Senior Vice-President and Treasurer and the Senior Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Treasury Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low cost floating rate U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than invest directly in a three month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity risk

> *Liquidity risk is the risk that funds will not be available to meet the Corporation's obligations.*

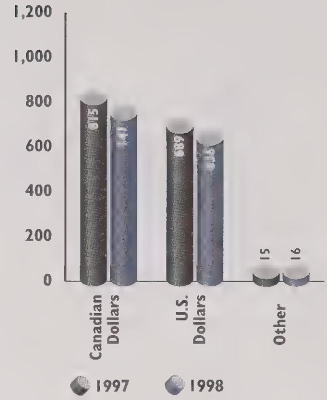
EDC's Treasury Risk Management Policies, which are approved by the Board of Directors, ensure that sufficient liquidity is retained to meet operating requirements, and to maintain stability in short-term borrowing programs. EDC is in compliance with these policies. In the course of its normal activities EDC's commercial paper programs provide the Corporation with the necessary liquidity to meet its cash requirements on a daily basis. EDC also holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements.

Cash and Marketable Securities

> *Cash and marketable securities remained relatively unchanged from the prior year, decreasing by 8% to $1,399 million from $1,519 million in 1997.*

The Corporation holds marketable securities and cash in the form of interest bearing deposits. It is the policy of EDC that corporate cash holdings be invested in a prudent manner. The investment of corporate cash holdings is governed by the Export Development Act, the Financial Administration Act, and the Corporation's Investment Authorities approved by the Minister of Finance.

Cash and Marketable Securities
(CAD$ equiv. in millions)



The Corporation maintains cash and marketable securities in a number of currencies to ensure that it is able to meet its obligations as they arise. As at the end of 1998 cash and marketable securities totaled $1,399 million (1997 - $1,519 million) representing a decrease of $120 million from the previous year. EDC continues its investment strategy which focuses on a portfolio which is predominantly in Canadian dollars. The U.S. dollar portfolio also decreased from $689 million in 1997 to $636 million in 1998 while holdings in other currencies increased by $1 million to $16 million. Other currencies in which investments and/or cash deposits are held include Deutsche marks, British pounds, Japanese yen, and European currency units.

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

Year 2000

The Issue

The Year 2000 issue arises because many existing computer systems record and identify years with two digits, rather than four. When the century rollover occurs, dates will contain the two-digit year "00". Many computers or electronic equipment using a computer chip may fail to recognize the change to the 21st century. If not corrected, computer applications could fail or produce erroneous results, potentially impacting business viability and profitability. In response to this risk, EDC has implemented a Year 2000 Project.

The Project

EDC's Year 2000 project is structured into five phases: awareness, assessment, remediation, testing and implementation. In 1996 the company began an initiative to survey all of its computer systems, processes and other technology for Year 2000 readiness. EDC is striving to ensure that the Year 2000 problem does not affect the company's business, so that EDC in turn does not jeopardize service to customers. A cross-functional steering committee, led by the Chief Financial Officer, has been established to co-ordinate and monitor activities involved in conducting the assessment of EDC's business risk within an enterprise-wide framework, consistent with that adopted by other financial institutions in Canada. To further assist management and ensure the adoption of best practices the Corporation has engaged consultants with significant experience in the development and implementation of enterprise-wide frameworks and contingency plans in financial institutions.

Technology

EDC has completed the assessment phase which included a corporate-wide inventory of technology. As part of the assessment process, the company determined how readiness would be achieved. The options were to upgrade to a new, compliant version; replace the application, if possible, with better technology; or repair the existing code. The remediation, testing and implementation phases consist of making the applications Year 2000 ready based on the recommendations resulting from the assessment phase. The replaced or remediated systems are then tested to ensure that the application still operates in its original fashion. Once an application is tested and determined to be Year 2000 compliant, implementation takes place, and the application is returned to production status.

EDC's initial target date for becoming Year 2000 ready for all mission critical systems was the end of 1998. With the exception of two non-critical projects which will be completed in the first quarter of 1999, all mission critical systems were tested to determine EDC's readiness for the Year 2000 and the systems passed the tests. The focus for 1999 will be on continued user acceptance testing and the development of contingency plans.

Costs

EDC's Year 2000 efforts have been undertaken primarily by existing personnel. The Corporation does not separately track the internal costs incurred for the Year 2000 project. EDC has engaged external resources to assist in 1999 with the review of Year 2000 risks and contingency planning. Most of the systems upgrades, particularly for software, are covered under existing maintenance agreements. EDC estimates that the total incremental costs, including costs incurred to date, will be approximately $1.3 million. These costs are expensed as incurred. Year 2000 costs expensed in 1998 totaled $0.2 million.

Contingency Plan

EDC expects to have completed its assessment of critical business functions needed to keep EDC operationally viable and a contingency plan to provide alternatives and/or workarounds to deal with potential Year 2000 disruptions by the end of the second quarter of 1999.

Risks

The potential exposure to external risk due to the possible non-compliance of EDC's customers, suppliers, business partners and counterparties remains to be fully determined. Three working groups representing short-term financial services, medium- and long-term financial services and treasury have been created with the objective to determine the Year 2000 readiness of EDC's supply chain and to assess the potential risk depending on factors such as industry and country general preparedness.

Despite the efforts undertaken by EDC, and considering the uncertainty surrounding third party readiness, there cannot be absolute assurance that uncertainties caused by the Year 2000 issue will not materially and adversely affect EDC's ability to conduct normal business operations.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial, management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions which are known as Canada Account transactions are shown in note 19 to the Corporation's consolidated financial statements and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

AUDITOR'S REPORT

AUDITOR GENERAL OF CANADA | **VÉRIFICATEUR GÉNÉRAL DU CANADA**

To the Minister for International Trade

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 1998 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
January 29, 1999

Consolidated Financial Statements

Consolidated Balance Sheet

as at December 31, 1998

($ in millions)	1998	1997
Assets		
Cash and Investments		
Cash and marketable securities (note 3)	1,399	1,519
Investments (note 4)	331	408
Accrued interest	13	21
	1,743	1,948
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	13,209	9,663
Accrued interest and fees	222	168
	13,431	9,831
Other		
Recoverable insurance claims (note 10)	44	28
Other assets	44	45
	88	73
Total Assets	$15,262	$11,852
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	12,573	9,556
Accrued interest	201	103
	12,774	9,659
Other Liabilities and Deferred Revenues		
Accounts payable	128	84
Deferred insurance premiums	19	17
Allowance for claims on insurance and guarantees (note 10)	436	336
Deferred loan revenues and other credits	225	211
	808	648
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	983	983
Retained earnings	697	562
	1,680	1,545
Total Liabilities and Shareholder's Equity	$15,262	$11,852

See accompanying notes.

Approved by the Board of Directors

W.R.C. Blundell

W.R.C. Blundell
Director

A. Ian Gillespie

A. Ian Gillespie
Director

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1998

($ in millions)	1998	1997
Interest Income		
Loans	1,055	782
Marketable securities and investments	126	92
	1,181	874
Interest expense	642	481
Net interest income	539	393
Insurance Premiums and Guarantee Fees	110	99
Provision for Credit Losses (note 11)	433	295
Income after provision for credit losses	216	197
Administrative Expenses	81	69
Net Income	135	128
Retained Earnings		
Beginning of year	562	434
End of year	$697	$562

See accompanying notes.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1998

($ in millions)	1998	1997
Operating Activities		
Net income	135	128
Items not affecting cash		
Provision for credit losses	433	295
Net (increase)/decrease in accrued interest and fees	56	(25)
Net increase in deferred revenue	2	44
Other changes	(7)	(38)
Cash provided	619	404
Lending Activities		
Loan disbursements	(6,008)	(3,321)
Loan repayments	2,893	1,860
Items not affecting cash		
Interest rescheduled	(82)	(55)
Cash used	(3,197)	(1,516)
Financing Activities		
Issue of long-term loans payable	3,085	1,730
Repayment of long-term loans payable	(2,549)	(1,409)
Increase in short-term loans payable	1,794	1,261
(Increase)/decrease in investments	77	(1)
Cash provided	2,407	1,581
Increase/(decrease) in cash and marketable securities	(171)	469
Foreign exchange on opening balance of cash	51	13
Cash and Marketable Securities		
Beginning of year	1,519	1,037
End of year	$1,399	$1,519

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969 by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was last amended effective June 10, 1993. The Corporation was created as an agent of Her Majesty in right of Canada for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended in 1993 gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Act provides that a review of the provisions and operation of the Act must be undertaken at specified regular intervals. The first such review is presently underway. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act.*

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed $15 billion, an amount equal to 10 times the authorized capital of the Corporation. As at December 31, 1998, the contingent liabilities are $11.8 billion (1997 – $8.7 billion restated).

As an agent of Her Majesty in right of Canada, debt instruments issued by the Corporation carry the full faith and credit of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 1998 is $23.2 billion (1997 – $21.3 billion), against which borrowings amounted to $12.6 billion (1997 – $9.6 billion).

2. Summary of Significant Accounting Policies

CASH AND MARKETABLE SECURITIES

Securities which are being held to maturity are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and permanent loss in the value of a security carried at cost, the security would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in marketable securities and investment interest income.

NET LOANS RECEIVABLE

Net loans receivable are stated net of non-accrued capitalized interest and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan.

An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Loan fees, mainly exposure fees and administration fees, are recognized as interest income over the term of the related loan.

MEASUREMENT UNCERTAINTY

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using discounting of estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for losses on loans.

ALLOWANCE FOR LOSSES ON LOANS

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for losses on loans. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic

conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio. This evidence can exist as early as the time of disbursement.

RECOVERABLE INSURANCE CLAIMS

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

ALLOWANCE FOR CLAIMS ON INSURANCE AND GUARANTEES

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for losses on loans. The related provision is recorded through the provision for credit losses.

INSURANCE PREMIUMS

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related.

TRANSLATION OF FOREIGN CURRENCY

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

INTEREST EXPENSE

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Cash and Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investments portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Temporary investments are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange obligations such as interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)				1998	1997
	Remaining Term to Maturity				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Investment Portfolio					
Fixed rate securities	38	398	152	588	563
Swap contracts	(28)	(87)	(47)	(162)	(137)
Net fixed	10	311	105	426	426
Yield to maturity %	*4.70*	*5.79*	*6.57*	*6.06*	*6.04*
Floating rate securities	395	116	–	511	645
Swap contracts	29	87	39	155	150
Net floating	424	203	39	666	795
Yield to reset %				*5.04*	*5.23*
Total investment portfolio	434	514	144	1,092	1,221
Temporary Investments					
Floating rate securities	307	–	–	307	298
Total temporary investments	307	–	–	307	298
Spot yield %				*5.08*	*4.43*
Value at purchase	*306*			*306*	297
Total Cash and Marketable Securities	$741	$514	$144	$1,399	$1,519

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the temporary investments portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $110 million (1997 – $102 million) of cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by three Crown corporations: Ridley Terminals, Inc., Vancouver Port Corporation and the Royal Canadian Mint, totaling $221 million (1997 – $306 million). These Crown corporations are related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. These investments were made in the normal course of business, transacted at fair value, and are recorded at cost. During 1998 certain notes were retired prior to their maturity date at the request of the issuer.

($ in millions)				1998	1997
	Remaining Term to Maturity*				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Fixed rate investments	–	–	56	56	306
Floating rate investments	275	–	–	275	102
Total Investments	$275	–	$56	$331	$408
*Yield**	*5.11%*	*n/a*	*6.29%*		

* Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	1998					1997				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	40	9.27	14	2.11	54	1	10.45	7	0.94	8
1998	–	–	–	–	–	681	9.03	1,046	1.87	1,727
1999	827	8.74	1,719	2.58	2,546	629	9.00	614	1.83	1,243
2000	703	8.73	947	1.94	1,650	523	9.01	618	1.89	1,141
2001	802	8.85	1,030	1.89	1,832	656	9.05	551	1.81	1,207
2002	634	8.59	844	1.77	1,478	508	8.78	452	1.73	960
2003	519	8.35	765	1.48	1,284	381	8.64	371	1.50	752
2004-2008	1,842	7.89	1,999	1.37	3,841	1,197	8.28	1,271	1.16	2,468
2009 and beyond	1,246	7.80	664	0.99	1,910	704	8.53	378	0.71	1,082
Performing	6,613	8.01	7,982	1.83	14,595	5,280	8.56	5,308	1.58	10,588
Impaired (Note 6)	155		1,774		1,929	183		1,602		1,785
Gross loans receivable	$6,768		$9,756		$16,524	$5,463		$6,910		$12,373
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					1,041					831
Performing loans*					214					251
Loans receivable					15,269					11,291
Less: Allowance for losses on loans (Note 7)					2,060					1,628
Net Loans Receivable					$13,209					$9,663

* Represents the unamortized balance that accrued while the loan was impaired.

At December 31, 1998, the floating rate performing gross loans receivable are yielding 7.19% (1997 – 7.26%) with an average term to reset of 106 days (1997 – 99 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	1998					1997				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
Sovereign	3,279	8.57	2,487	1.33	5,766	2,970	8.70	2,347	1.12	5,317
Commercial	3,334	7.63	5,495	2.03	8,829	2,310	8.45	2,961	1.92	5,271
Total	$6,613	8.01	$7,982	1.83	$14,595	$5,280	8.56	$5,308	1.58	$10,588

6. Impaired Loans Receivable

The Corporation has $1,929 million impaired gross loans receivable (1997 – $1,785 million) of which $1,784 million is sovereign (1997 – $1,682 million) and $145 million is commercial (1997– $103 million).

The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	1998	1997
Balance at beginning of year	1,785	1,919
Loans classified as impaired	40	–
Loans reinstated to performing	–	(142)
Sale of impaired assets	–	(31)
Capitalized interest	112	74
Principal repayments	(18)	(50)
Receipts from the Government of Canada for sovereign debt relief	(97)	(17)
Foreign exchange	107	32
Balance at end of year	$1,929	$1,785

The largest concentrations of gross loans receivable for impaired loans are listed in the following table.

($ in millions)	1998				1997			
	Gross loans receivable	Non-accrued capitalized interest	Specific allowance	Net impaired loans receivable	Gross loans receivable	Non-accrued capitalized interest	Specific allowance	Net impaired loans receivable
Sovereign								
Peru	673	491			632	424		
Cameroon	433	233			386	151		
Côte d'Ivoire	259	162			262	124		
Russia	120	47			117	41		
Congo	55	43			53	38		
Other	244	62			232	53		
Sub-total	1,784	1,038	296	450	1,682	831	390	461
Commercial	145	3	125	17	103	–	98	5
Total Impaired	$1,929	$1,041	$421	$467	$1,785	$831	$488	$466

During 1998, payments of principal and interest from borrowers for impaired loans were $62 million (1997 – $86 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)			1998			1997
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
Specific allowance						
for impaired loans	296	125	421	390	98	488
General allowance	657	982	1,639	540	600	1,140
Total	$953	$1,107	$2,060	$930	$698	$1,628

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade and speculative grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined below, represent $3,823 million or 26% of the Corporation's performing loans receivable.

($ in millions)		1998			1997
Country	Performing gross loans receivable	% of performing loans	Country	Performing gross loans receivable	% of performing loans
Indonesia	850	6	Mexico	609	6
Brazil	734	5	Indonesia	564	5
Mexico	630	4	Brazil	498	5
Algeria	523	4	Algeria	448	4
Venezuela	495	3	Venezuela	372	4
Argentina	305	2	Argentina	309	3
Turkey	286	2	India	259	2
Total	$3,823	26	Total	$3,059	29

In addition, the Corporation has a single counterparty loan receivable of $1,006 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)			1998			1997
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	488	1,140	1,628	661	762	1,423
Provision for losses on loans	(71)	384	313	(156)	340	184
Write-off	–	–	–	(18)	–	(18)
Foreign exchange	4	115	119	1	38	39
Balance at end of year	$421	$1,639	$2,060	$488	$1,140	$1,628

8. Loan Commitments

The Corporation has undisbursed commitments of $5,813 million (1997 – $6,482 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed balances.

The projected disbursement of the loan commitments is as follows:

($ in millions)	1998		1997	
Year	**Projected disbursements**	%	Projected disbursements	%
1998	–	–	2,582	40
1999	**2,734**	**47**	1,027	16
2000	**1,033**	**18**	643	10
2001 and beyond	**2,046**	**35**	2,230	34
Total	**$5,813**	**100**	$6,482	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	1998				1997			
	Fixed $	**Spot yield %**	**Floating $**	**Spread %**	Fixed $	Spot yield %	Floating $	Spread %
Sovereign	**2,158**	**8.47**	**502**	**2.54**	2,385	8.33	561	2.44
Commercial	**63**	**8.28**	**3,090**	**2.03**	167	8.20	3,369	2.39
Total	**$2,221**	**8.47**	**$3,592**	**2.10**	$2,552	8.32	$3,930	2.40

9. Contingent Liabilities

Note 1 states that the Corporation is subject to a limit imposed by the Act on its contingent liability programs. In 1997 the amount reported in Note 1 included unutilized exposure of $2.8 billion. In 1998, the Corporation refined its estimate of the Corporation's contingent liabilities to exclude the unutilized exposure and 1997 has been restated accordingly.

As at December 31, the Corporation has insurance policies in force and guarantees outstanding of $11,794 million (1997 – $8,724 million) which mature as follows:

($ in millions)	1998	1997
Short-term program	**6,850**	5,700
Medium-term program		
1998	–	546
1999	**589**	328
2000	**872**	443
2001	**1,921**	379
2002	**242**	197
2003	**196**	229
2004-2008	**581**	660
2009 and beyond	**543**	242
Total	**$11,794**	$8,724

The major concentrations by location of ultimate risk are as follows:

($ in millions)			1998				1997
	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	2,538	1,377	3,915	U.S.	2,317	62	2,379
Canada	1,024	674	1,698	Canada	975	443	1,418
Brazil	353	301	654	U.K.	128	240	368
China	226	153	379	Japan	332	1	333
U.K.	155	224	379	Mexico	297	20	317
Other	2,554	2,215	4,769	Other	1,651	2,258	3,909
Total	$6,850	$4,944	$11,794	Total	$5,700	$3,024	$8,724

Reinsurance of $179 million (1997 – $78 million) has been deducted from the insurance policies in force.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	1998	1997
Balance at beginning of year	28	25
Claims paid	72	43
Claims recovered	(19)	(16)
Re-evaluation of recoverable claims	(39)	(24)
Foreign exchange	2	–
Balance at end of year	$44	$28

Of the $72 million in claim payments made during 1998, 87% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)		1998			1997
	Claims paid	Claims recovered		Claims paid	Claims recovered
U.S.	21	5	U.S.	25	5
Italy	10	8	Canada	7	3
Mexico	9	2	Mexico	3	1
India	5	–	France	2	1
Canada	4	1	China	1	–
Other	23	3	Other	5	6
Total	$72	$19	Total	$43	$16

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	1998	1997
Balance at beginning of year	336	240
Provision for claims on insurance	88	59
Provision for loan guarantees	32	52
Re-evaluation of recoverable claims	(39)	(24)
Foreign exchange	19	9
Balance at end of year	$436	$336

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	1998	1997
Provision for losses on loans	313	184
Provision for claims on insurance	88	59
Provision for loan guarantees	32	52
Provision for Credit Losses	$433	$295

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. Derivative contracts and structured notes are used to minimize the cost of capital and are also used for asset/liability management purposes.

LOANS PAYABLE

Loans payable are comprised as follows:

($ in millions)	1998		1997	
	Loans payable	Interest expense	Loans payable	Interest expense
Short-term payables	4,072	156	2,120	59
Long-term payables				
- due within current year	2,378		2,005	
- over one year	6,084		5,383	
Total long-term payables	8,462	486	7,388	422
Sub-total	12,534	642	9,508	481
Plus: unamortized discounts and premiums	13		14	
deferrals	26		34	
Total Loans Payable	$12,573		$9,556	

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cashflow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument.

ACCRUED INTEREST PAYABLE

Accrued interest payable reflects the corporate cash flow obligation. It can be broken down into its component parts as follows:

($ in millions)	1998	1997
Short-term	31	13
Long-term		
- Debt issued	434	313
- Swap contracts	(264)	(223)
Total Accrued Interest Payable	$201	$103

The accrued interest for the above swap contracts is the net of interest owing on the floating side of swaps and the interest receivable on the fixed side of the swaps.

STRUCTURED NOTES

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	1998	1997
Equity index	621	502
Dual currency	1,600	923
Step-up	220	300
Callable/extendible	434	166
Barrier	580	68
Other	424	103
Total	$3,879	$2,062

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Loans Payable Maturities

Loans payable and related notional swap amounts mature as follows:

($ in millions)			1998		1997
Year of Maturity	Issues	Swap contracts	Net	*Yield* (%)*	Net
Fixed Rate Issues					
1998	–	–	–	–	711
1999	2,186	(1,375)	811	7.39	786
2000	1,777	(1,424)	353	6.96	286
2001	787	(803)	(16)	–	–
2002	731	(578)	153	7.81	143
2003	983	(60)	923	1.57	147
2004 to 2008	1,073	(1,073)	–	–	–
2009 and beyond	648	(351)	297	8.31	254
Sub-total	8,185	(5,664)	2,521	7.04	2,327
Floating Rate Issues					
1998	–	–	–		3,414
1999	4,155	1,320	5,475		474
2000	–	1,416	1,416		1,035
2001	15	784	799		589
2002	–	575	575		584
2003	153	66	219		226
2004 to 2008	22	1,113	1,135		798
2009 and beyond	34	360	394		61
Sub-total	4,379	5,634	10,013	4.75	7,181
Total	$12,564	$(30)	$12,534		$9,508

* Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1997 – 9.8 million). No shares were issued in 1998 (1997– nil).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)							1998			1997
	Assets			Liabilities						
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Net foreign currency exposure	Rate	Net foreign currency exposure	Rate
European Currency Units	10	(7)	3	–	–	–	3	1.7959	23	1.5713
British Pounds	621	(11)	610	(1,421)	841	(580)	30	2.5448	16	2.3472
Deutsche Marks	479	–	479	(377)	(71)	(448)	31	0.9184	(14)	0.7944
U.S. Dollars	12,011	128	12,139	(8,243)	(3,893)	(12,136)	3	1.5305	(10)	1.4291
Netherlands Guilder	42	–	42	(2)	(39)	(41)	1	0.8155	–	0.8294
Italian Lira	–	–	–	(186)	185	(1)	(1)	0.0009	(1)	0.0008
Swiss Francs	–	–	–	(166)	166	–	–	1.1143	–	0.9777
Australian Dollars	9	(9)	–	(280)	280	–	–	0.9387	–	0.9315
Japanese Yen	27	(27)	–	(1,034)	1,034	–	–	0.0136	–	0.0110
Norwegian Krone	7	–	7	–	(7)	(7)	–	0.2026	–	0.1941
South African Rand	–	–	–	(28)	28	–	–	0.2600	–	0.2938
Austrian Schilling	2	–	2	–	(2)	(2)	–	0.1306	–	0.1129

* "Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.

The Corporation incurred a foreign exchange gain of $12.9 million in 1998 (1997 – gain of $7.8 million). This amount is included in interest expense. Although EDC's net asset exposure as at December 31, 1998 is primarily with European currencies, the majority of the foreign exchange gain reported for the year reflects net asset exposures in U.S. dollars and British pounds. In 1998, the portion of the total foreign exchange gain attributable to U.S. dollars was $9.9 million (1997 – gain of $4 million) and to British pounds was $1.9 million (1997 – gain of $0.1 million).

16. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. The use of derivatives is limited by Treasury policy and guidelines. EDC does not utilize derivatives for speculative purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest Rate Swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency Swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity Index Swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign Exchange Contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward Rate Agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1997 – $20 million) has been established. This amount is included in accounts payable.

Interest rate swap, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31, are listed below.

($ in millions)					1998	1997
	Remaining Term to Maturity					
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
Currency swaps	1,104	2,299	205	1,022	4,630	3,387
Interest rate swaps	321	392	627	562	1,902	2,616
Foreign exchange contracts	1,662	–	–	–	1,662	897
Total derivative financial instruments	$3,087	$2,691	$832	$1,584	$8,194	$6,900
Fair Value of Derivative Financial Instruments						
Positive	34	324	114	117	589	319
Negative	(63)	(84)	(1)	(39)	(187)	(244)

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The chart below outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined below do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)		1998		1997
Balance Sheet Financial Instruments	**Book value**	**Fair value**	Book value	Fair value
Cash and marketable securities:				
Fixed rate securities	436	444	436	439
Floating rate securities	975	975	1,099	1,099
Investments	332	342	413	430
Loans receivable:				
Performing fixed rate	6,432	6,862	4,939	5,599
Performing floating rate	6,532	7,678	4,426	5,191
Impaired	467	467	466	466
Total	15,174	16,768	11,779	13,224
Accounts payable	128	128	84	84
Loans payable:				
Fixed rate	2,722	2,807	2,430	2,474
Floating rate	10,013	10,013	7,181	7,181
Total	12,863	12,948	9,695	9,739

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of items such as deferrals which do not have a fair value.

($ in millions)	1998	1997
Off-Balance Sheet Financial Instruments	**Fair value**	Fair value
Currency swap contracts	272	(34)
Interest rate swap contracts	124	113
Foreign exchange contracts	6	(4)
Undisbursed loan commitments:		
Fixed rate	175	213
Floating rate	(113)	30

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at December 31. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at December 31 as issued by Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada pays the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 1998, the Corporation received from the Government of Canada $97 million (1997 – $17 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $399 million and undisbursed commitments of $1,098 million, for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account". The Board of Directors is only responsible for the management and the administration of the transactions made by the Corporation under the Canada Account. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $3,038 million at December 31, 1998 (1997 – $2,941 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,650 million (1997 – $5,542 million). Reinsurance of $91 million has been deducted from the insurance policies in force.

The Corporation retained $22 million (1997 – $19 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor calculation errors to significant systems failure which could affect EDC's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting EDC, including those related to the efforts of customers, suppliers, counterparties, or other third parties, will be fully resolved.

21. Reclassification of Comparative Figures

Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

Five-Year Review

Balance Sheets

as at December 31

($ in millions)	1998	1997	1996	1995	1994
Gross loans receivable	16,524	12,373	10,504	9,910	9,901
Less: non-accrued capitalized interest	1,255	1,082	998	927	929
Less: allowance for losses on loans	2,060	1,628	1,423	1,233	926
Net loans receivable	13,209	9,663	8,083	7,750	8,046
Cash and investments	1,730	1,927	1,444	1,459	1,097
Accrued interest and other assets	323	262	214	214	203
Total assets	$15,262	$11,852	$9,741	$9,423	$9,346
Loans payable	12,573	9,556	7,735	7,668	7,734
Accrued interest and other liabilities	573	415	349	378	363
Allowance for claims on insurance and guarantees	436	336	240	204	158
Total liabilities	13,582	10,307	8,324	8,250	8,255
Share capital	983	983	983	851	813
Retained earnings	697	562	434	322	278
Shareholder's equity	1,680	1,545	1,417	1,173	1,091
Total liabilities and shareholder's equity	$15,262	$11,852	$9,741	$9,423	$9,346

Income Statements

for the year ended December 31

($ in millions)	1998	1997	1996	1995	1994
Interest income – loans*	1,055	782	688	813	754
Interest income – marketable securities and investments	126	92	99	87	59
Less: interest expense	642	481	437	485	458
Net interest income	539	393	350	415	355
Insurance premiums and guarantee fees	110	99	92	76	52
Provision for credit losses	433	295	270	390	180
Income after provision for credit losses	216	197	172	101	227
Administrative expenses	81	69	60	57	56
Net income	$135	$128	$112	$44	$171

* Figures prior to 1998 are restated to conform with current presentation.

Corporate Account

FINANCIAL ARRANGEMENTS FACILITATED

($ in millions)	1998	1997	1996	1995	1994
Export Financing					
Direct financing	6,639	5,454	3,678	2,142	1,879
Export Insurance					
Short-term insurance	23,990	20,332	15,756	13,044	8,164
Medium-term insurance	3,933	2,629	2,464	1,954	1,300
Guarantees	189	221	132	97	288
Sub-total	28,112	23,182	18,352	15,095	9,752
Total	$34,751	$28,636	$22,030	$17,237	$11,631

FINANCIAL AND OTHER DATA

Export Financing					
Number of transactions financed	351	242	172	140	137
Number of loans receivable	894	810	801	759	838
Value of total obligations on loans receivable	16,536	12,469	10,517	9,920	9,935
Number of undisbursed loans	596	216	216	201	197
Value of undisbursed loans	5,813	6,482	2,863	1,854	2,357
Value of disbursements to exporters	6,008	3,321	2,463	2,172	2,444
Value of liability on loan guarantees	1,723	416	347	257	202
Undisbursed amounts on loan guarantees	150	145	85	88	41
Number of current lines of credit and protocols	52	44	50	46	44
Amounts available for allocation	1,320	1,356	1,570	1,719	1,799
Loan amounts rescheduled	237	158	464	442	1,397
Loan recoveries	–	–	–	–	5
Loan amounts written off	–	18	–	–	–
Export Insurance					
Number of policies issued	3,345	3,021	2,591	2,040	1,732
Number of insurance policies and guarantees in force	6,272	5,352	4,404	3,446	3,186
Value of liability on insurance and guarantees*	9,921	8,163	7,000	5,869	4,811
Value of claims paid	72	43	60	28	47
Value of claims recovered/rescheduled	19	16	11	8	51
Value of claims outstanding at end of year	164	119	100	57	48
Value of claims under consideration at end of year	62	15	14	17	10
Average employee strength during year	698	650	602	557	549

* Figures prior to 1998 are restated to conform with current presentation.

Canada Account

FINANCIAL ARRANGEMENTS FACILITATED

($ in millions)	1998	1997	1996	1995	1994
Export Financing					
Direct financing	9	1,584	131	430	317
Export Insurance					
Short-term insurance	–	–	6	4	–
Medium-term insurance	497	283	299	281	168
Guarantees	12	34	–	–	2
Sub-total	509	317	305	285	170
Total	$518	$1,901	$436	$715	$487

FINANCIAL AND OTHER DATA

	1998	1997	1996	1995	1994
Export Financing					
Number of transactions financed	5	7	29	26	7
Number of loans receivable	301	297	291	258	247
Value of total obligations on loans receivable	2,904	2,799	2,753	2,677	2,517
Number of undisbursed loans	69	81	96	88	81
Value of undisbursed loans	194	309	373	598	729
Value of disbursements to exporters	103	115	171	434	258
Number of current lines of credit and protocols	2	1	1	3	3
Amounts available for allocation	87	20	20	93	120
Loan amounts rescheduled	45	136	9	17	305
Export Insurance					
Number of policies issued	12	12	7	10	15
Number of insurance policies and guarantees in force	25	23	22	24	33
Value of liability on insurance and guarantees*	299	241	456	486	469
Value of claims paid	4	6	–	23	20
Value of claims recovered	7	–	4	6	–
Value of claims outstanding at end of year	38	41	34	39	22

* Figures prior to 1998 are restated to conform with current presentation.

MEMBERS OF THE BOARD OF DIRECTORS

(as at December 31, 1998)*

*1 Vacancy

CORPORATE GOVERNANCE PRACTICES

In 1998, EDC's Board of Directors continued to actively assume the leadership of the Corporation, providing insightful, timely direction and guidance on key aspects of EDC's operations. An aggregate of 40 meetings of the Board and its various Committees was held during the year.

To ensure the continuing effectiveness and vitality of EDC's corporate governance practices, in March 1998 the Corporate Governance Committee of the Board oversaw the administration of a second survey among directors, and undertook a comprehensive review and evaluation of EDC's current practices in respect of each of the Guidelines as set out by the Treasury Board in its publication *Corporate Governance in Crown Corporations and Other Public Enterprises*; and it established a course of action to address any significant gaps.

In doing so, it became evident that EDC's Board of Directors was already effectively assuming its responsibilities — actively involved in the corporate and strategic planning processes, and diligently ensuring the principal risks of the business are identified and information systems and management practices are in place to manage these risks; and it was assisted by an effective network of committees of the Board each assuming responsibility for specific aspects of EDC's operations and business. (See Committees of the Board for responsibilities and membership.)

The comprehensive review also provided insights into areas of responsibility which could be improved upon, and in 1998 significant initiatives were undertaken and completed which further enhanced EDC's corporate governance practices, and supported the continuing evolution of the Corporation, an evolution essential to Canadian exporters as they operate in an increasingly dynamic, fiercely competitive, global trade arena.

With respect to its key responsibility, that of the stewardship of the Corporation (Guideline 1), major initiatives were undertaken in 1998. In terms of the strategic direction of the Corporation, the Board held one special meeting and designated time during its regular meetings to focus on EDC's mandate and proposed strategic direction, and approved a very progressive strategic plan intended to carry the Corporation into the next century with an expanded application of its mandate. To ensure the principal risks of the Corporation's business have been identified and appropriate systems are in place, a Risk Management Committee of the Board was established which has oversight responsibilities for the management of exposures undertaken by the Corporation under its financing, insurance and guarantee services, with a view to establishing a new allocation of responsibilities between the Board and management to enhance the provision of such services; and the Audit Committee continued its oversight responsibilities for the management of liabilities and exposures associated with corporate financing, financial reporting, and information systems and internal controls, placing a particular focus in 1998 on the state of EDC's readiness for Year 2000 compliance and the implications of the introduction of the Euro. Concerning succession planning, the Human Resources Committee of the Board began a comprehensive review of a competency-based succession planning program for EDC management.

In approving EDC's strategic direction, the Board reviewed and assessed the relevancy of the Corporation's mandate in the context of the dynamic global environment, balancing the requirements of its public policy mandate with its objective of operating on sound commercial principles (Guideline 2); and it approved a dividend policy in the form of a new financial sustainability framework, which is based on the premise that EDC remain financially self-sustaining, and its profitability be associated with a return on equity sufficient to sustain planned growth while maintaining capital adequacy. In doing so, it recognized that the review of the *Export Development Act* currently under way may lay the groundwork for changes which may be required if EDC is to continue to meet Canada's broadening public policy objectives.

Concerning Board independence (Guideline 5), during 1998 a variety of initiatives were undertaken: in camera sessions, excluding management, were held during each meeting of the Board and some meetings of the Committees;

the composition of all six Committees of the Board was revised to realign the expertise and balance the workload of directors; and the Board approved a new *Code of Business Ethics*, as well as a *Code of Conduct* which specifies the respective obligations of employees and directors, and requires that each individual sign annually a Statement of Compliance.

Other initiatives undertaken and completed in 1998 included: enhancing communications with EDC's stakeholders (Guideline 3); reviewing and approving the President's corporate objectives (Guideline 4); establishing a process for reviewing the performance of the President (Guideline 6); submitting recommendations of candidates to be considered for appointment to the Board (Guideline 7); and participating in special information sessions on corporate governance in Crown corporations and other public enterprises; and on risk management practices at EDC (Guideline 8).

While strident steps were taken by EDC's Board of Directors in 1998 in its continuing effort to improve its corporate governance practices, in future it will continue to critically review and assess its practices, as part of its overall commitment to ensuring effective, open, accountable corporate governance practices at EDC.

COMMITTEES OF THE BOARD

The Executive Committee has authority to exercise all powers of the Board except the declaration of dividends, the approval of any corporate plan, budget, financial statement or any report required by any statute or under EDC's By-Law, or the making, amendment or repeal of the by-laws. It is intended to meet to handle only those urgent matters which may arise between meetings of the Board. In 1998 the Committee held 11 meetings. Chairman: P.J. Lavelle; Members: W.R.C. Blundell, A.I. Gillespie, J.A. Pattillo, and R.G. Wright.

The Audit Committee, established in June 1984, assists the Board in discharging its responsibilities in relation to corporate accounting and financial reporting, internal control systems, internal and external audits and special examinations. In 1998 the Committee held four meetings. Chairman: J.A. Pattillo; Members: W.R.C. Blundell, R.A. Fung and R.J. Holt.

The Risk Management Committee, established in May 1998, is responsible for ensuring that appropriate policies are in place to ensure an acceptable level of credit risk to EDC resulting from the direct and contingent credit exposures from its financing, guarantee and insurance operations. It is also responsible for reviewing risk management standards, processes and methodologies utilized in the credit granting process and in the management of credit exposures. In 1998 the Committee held three meetings. Chairman: P. MacDonald; Members: A.I. Gillespie, R.J. Holt, H. Labelle, P.J. Lavelle and J.A. Pattillo.

The Business Development Committee, established in January 1987, assists the Board by providing policy direction with respect to EDC's continuing to meet the evolving needs of the market, taking into account any factors related to industrial sectors and/or regional economy. In 1998 the Committee held five meetings. Chairman: R.D. Doucett; Members: D.E. Byrne, M. Dufour, R.A. Fung and P. MacDonald.

The Human Resources Committee, established in March 1996, is responsible for reviewing EDC's Human Resources strategic plan, and its succession plan for executive officers; approving, on the recommendation of the President, the annual cash compensation paid to senior executives; and making recommendations to the Board on non-remuneration benefits to be provided to the President. In 1998 the Committee held five meetings. Chairman: W.R.C. Blundell; Members: A.I. Gillespie, P.J. Lavelle, P. MacDonald and R.G. Wright.

The Corporate Governance Committee, established in December 1996, is responsible for the development and implementation of methods to ensure good Board performance including the evaluation of the performance of directors; and the structure, responsibility and composition of Board committees. In 1998 the Committee held three meetings. Chairman: P.J. Lavelle; Members: D.E. Byrne, R.D. Doucett, M. Dufour and J.A. Pattillo.

All Committees are required to report to the Board of Directors on their activities on a regular basis. On average, each director served on two Committees of the Board. The total aggregate remuneration paid to EDC's private sector directors in 1998 was $160,000.00.

EDC'S CODE *of* BUSINESS ETHICS

Commitment to legal and ethical conduct

EDC will conduct its business and affairs in accordance with the letter and spirit of all applicable laws in the countries in which it does business. If any EDC employee or representative is ever uncertain as to the interpretation or application of a particular law, he or she must seek advice from Legal Services before taking action. Compliance with the law may, however, fall short of the standard of ethical conduct expected by EDC.

Accordingly, it is EDC's policy that each of its directors, employees and representatives conduct EDC's business with honesty, integrity, and fairness. It is also corporate policy that communication and relationships with stakeholders be truthful and transparent in a way that will withstand the highest degree of public scrutiny. Working relationships will be based on candor and openness, treating each other fairly and with respect, while acting with integrity, and weighing responsibilities to all stakeholders.

The environment

In considering transactions, EDC examines environmental risk along with any other risk. EDC has developed its own environmental assessment framework in consultation with Canadian exporters, environmental organizations and other stakeholders. This framework will support EDC's desire to conserve and enhance environmental quality and to advocate concern for the environmental impact of projects it supports in foreign jurisdictions. EDC will encourage best practices among those with whom it does business, with the aim of raising international environmental standards. EDC will strive for high standards of environmental conservation while ensuring this does not unduly hinder EDC's ability to support Canadian exporters to compete on a global scale.

Prohibitions against bribery and corruption

Basic criminal statutes of virtually all countries prohibit extortion and bribery. Under no circumstances will EDC, directly or indirectly, knowingly offer or give a bribe. Further, EDC will not support a transaction that involves the offer or giving of a bribe, and will exercise reasonable diligence and care not to support unknowingly such a transaction.

Human rights

EDC values human rights and promotes the protection of internationally recognized human rights, consistent with the policies of the government of Canada. EDC recognizes the sovereignty of other national governments when there is consistency with the policies of the government of Canada.

EDC employees, representatives and other stakeholders are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. EDC is therefore committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds. These prohibited grounds include: age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, pregnancy, sexual orientation and disability.

Avoiding conflicts of interest

Employees and representatives of EDC have a duty to act in the best interests of EDC at all times. A conflict of interest arises when an employee must choose between EDC's best interests and his/her own. The judgment of EDC employees and representatives must be, and must be seen to be, independent of any personal or financial interests that arise from business dealings, social ties, or other personal considerations.

EDC has adopted a code of conduct that requires employees and representatives of EDC to adhere to the highest standards of conduct with respect to conflicts of interest. Compliance with these standards is achieved through avoidance, disclosure, discontinuance or divestment.

Maintaining confidentiality of information

EDC will respect the privacy rights of its stakeholders, including their right to security of information. EDC will preserve confidential information in its possession, and use such information only for corporate purposes.

Some employees have access to sensitive or confidential information that, if released, could significantly harm EDC, its employees or other stakeholders. Therefore, employees and other representatives of EDC must use extreme care when handling such information. As a general rule, such information shall not be provided to EDC employees or representatives other than on a need-to-know basis or to anyone outside EDC who is not authorized or legally entitled to receive it.

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EXPORT DEVELOPMENT CORPORATION

1999

ANNUAL REPORT

EDC
SEE

creating capacity

Export Development Corporation (EDC) supports Canadian companies of all sizes pursuing international trade and investment opportunities. EDC is a unique financial institution offering some of the most sophisticated trade finance solutions and skills.

EDC strengthens the global competitiveness of Canadian exporters. We are open for business in some 200 countries around the world, including many emerging markets offering a wealth of opportunities, but a higher degree of risk. We partner with domestic and international financial institutions to expand Canadian business capability, and we act as a catalyst to help create international project opportunities.

EDC's financial services include credit insurance, bonding and guarantees, political risk insurance, direct buyer loans and lines of credit. More specialized financial services include highly structured, limited recourse financing arrangements, and joint ventures or projects that involve long-term leasing arrangements and equity participation.

Through its sector- and product-based business teams and specialized customer support groups, EDC provides a full range of trade finance services to assist Canadian exporters and investors.

Founded in 1944, EDC is a federal Crown corporation that balances commercial culture and entrepreneurial enthusiasm with public service responsibility. As Canada's leading trade finance specialist, EDC provides its customers with competitively priced financing and risk management solutions.

1999 Performance Against Objectives

Strategic Objectives for 1999

Each year management sets objectives reflecting EDC's mandate the essence of which is to support Canadian companies engaged in international trade. In 1999, the objectives of serving more customers, supporting more business, and generating an adequate rate of return formed the cornerstone of EDC's corporate strategy

1999 Results against Targets

Serve More Customers

More and more companies are pursuing business internationally, and EDC is uniquely placed to assist them – and, in particular, small- and medium-sized enterprises (SMEs), which require programs tailored to meet their needs

- Increase the number of customers that benefit from EDC's support to 5,100
- Increase the number of SMEs served to 4,437
- Maintain customer satisfaction levels at current levels

Results:

- The number of customers benefiting directly or indirectly from EDC services grew by an impressive 16 per cent, from 4,479* customers to 5,182, exceeding the target of 5,100.
- A total of 4,550 (88 per cent) of the customers supported were SMEs. This exceeded the target of 4,437.
- EDC achieved a customer satisfaction index of 80.4, an increase over the target (and 1998 result) of 79.8. Over 950 customers were interviewed and gave EDC top marks for service. This result demonstrates EDC's ongoing commitment to its customers in a world of ever-growing customer expectations.

Support More Business

The demand for trade finance services has grown in the past few years, and EDC is increasingly partnering with Canadian companies in support of their international activities. This support is even more vital in developing countries where few alternatives exist.

- Increase the volume of business supported by EDC to $37.0 billion
- Increase support to Canadian companies pursuing business in developing countries
- Develop relationships in key markets where the potential for additional business for Canadian companies is substantial

Results:

- EDC supported $40.1 billion in business in 1999, surpassing last year's results by 15 per cent and exceeding the target.
- EDC supported $9.8 billion of business volume in developing countries, which represents 25 per cent of our total business volume, consistent with 1998 results.
- EDC currently has representatives in China and is finalizing arrangements in two more countries that have been identified as key markets.

Generate an Adequate Rate of Return

EDC must generate an adequate rate of return to strengthen the financial base and enable future growth to be met on a self-sustaining basis. EDC uses a number of financial measures to track this, including:

- Financial Sustainability Ratio (a measure of operating income net of administrative expenses to capital and allowances, referred to as the FSR)
- Internal Efficiency Ratio (a measure of administrative expenses to operating income)

Results:

- The FSR focuses on our capacity to generate operating income in order to build up capital and allowances to support more business. In 1999, EDC achieved a ratio of 14.6 per cent, within the target range of between 13.5 and 15 per cent.
- EDC strives to manage its administrative expenses efficiently while allowing for a level of investment in people and technology to keep pace with the size and complexity of the business. In 1999, EDC achieved an internal efficiency ratio of 13.5 per cent, bettering its target of 16 per cent.

Internal Readiness

To deliver its business strategy with success, EDC requires the internal resources and appropriate processes to do so

- Continue to put emphasis on training in the sales, financial and systems areas
- In recognition of the strong link between leadership and employee performance, provide leadership training
- Prepare for Year 2000 compliance

Results:

- In 1999, 95 per cent of EDC employees received training, with an average of just over five days each, exceeding the target of providing five days each to 90 per cent of employees.
- Some 100 managers received an average of six days of training to enhance their leadership skills, well above the target of five days per manager.
- No programming or infrastructure issues were encountered with respect to Y2K during the critical period, and there were no disruptions to EDC's customer service.

Strategic Objectives for 2000

EDC's vision is to become the recognized leader in its field for the benefit of Canada. To achieve this, it has set a corporate objective to create and deliver capacity, capability and opportunities in support of Canadian companies pursuing international business

Continue to support a growing number of companies selling or investing abroad by providing the products and services required to meet their needs. Specifically, EDC plans to:

- Increase the number of customers served to 5,700
- Increase the number of SMEs served to 5,015
- Achieve a customer satisfaction index of 80

Capture opportunities for Canadian companies

- Increase the volume of business supported by EDC to $45 billion
- Increase the volume of business in developing countries to $11.25 billion
- Implement the new corporate identity and branding to more accurately reflect our dynamic and commercial nature

Generate an adequate rate of return to support future risk taking.

- Achieve an FSR of 14.9%

Establish internal capabilities to enable EDC to deliver capacity and opportunities

- Focus on employee retention (targeting a less than 10 per cent voluntary separation rate), training (at least five days per employee) and leadership skills development (at least one component of the program for everyone in a supervisory capacity)
- Continue to develop the succession-planning process

Optimize the use of technologies

- Further develop and implement our e-commerce strategy (with regard to the new product offerings)
- Increase use and functionality of EDC Direct, our web-based customer access system
- Design and run a pilot of Globex, the enhanced support system for the management and administration of short-term credits insurance policies
- Proceed to production phase for new treasury management system and new loans administration system

Expand network of partners to create and strengthen capacity in the private sector

- Pursue a partnership which would allow for a seamless delivery of both domestic and international credit insurance for our customers

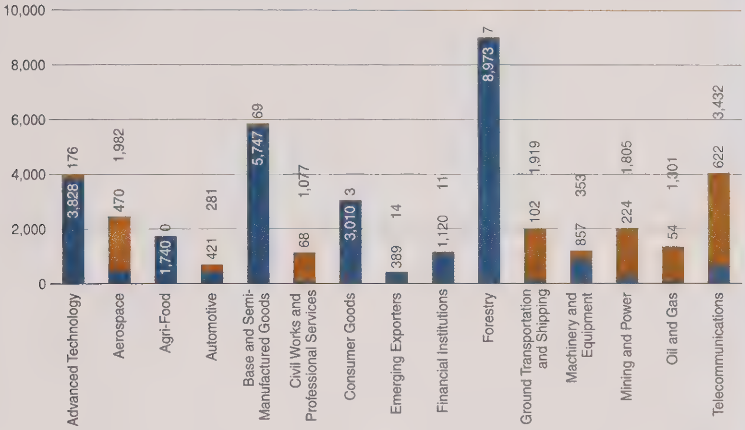
Establish a strong reputation for corporate responsibility

- Establish a disclosure framework
- Better define and implement the Education and Youth Employment initiatives
- Develop a plan to incorporate human rights concerns into our country risk assessments

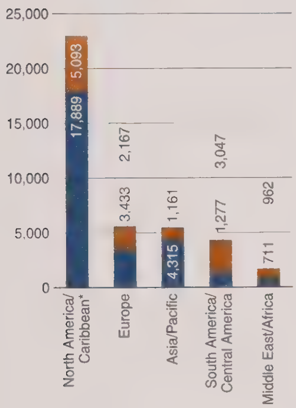
* *For comparison purposes, 1998 results have been restated to include a new segment of customers*

1999 Corporate Account Highlights

Business Volume by Industry Sector
($ in millions)

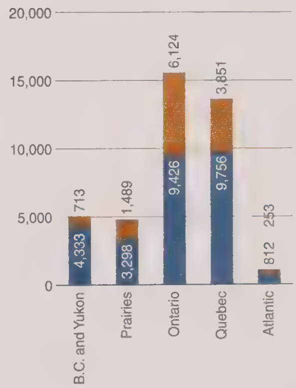


Business Volume by Geographic Market
($ in millions)



*includes Mexico

Business Volume by Canadian Region
($ in millions)

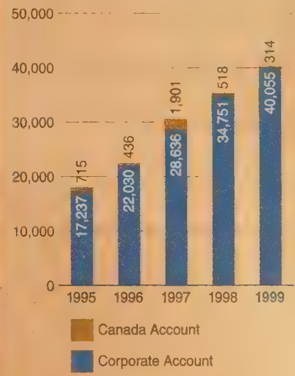


Medium- and long-term financial services

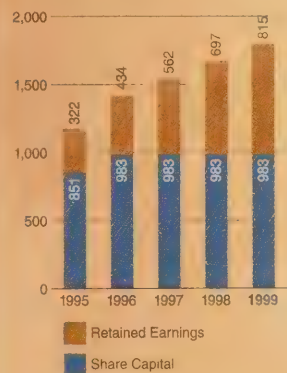
Short-term financial services

Five-Year Review

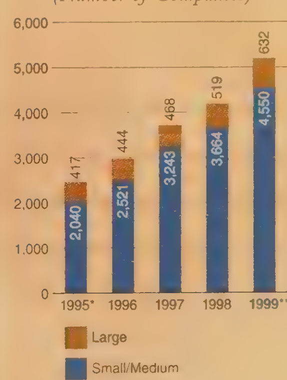
Business Volume
($ in millions)



Shareholder's Equity
($ in millions)



Customers Served
(Number of Companies)



* *includes direct customers only*

** *includes new customer segment*

EDC's vision and values

EDC's Vision

EDC will be the recognized leader in providing ground-breaking commercial financial solutions to companies of all sizes, helping them succeed in the global marketplace and create enduring prosperity for Canada.

Values

People

We are the heart and soul of EDC. Our diversity enriches us all. Each one of us deserves respect and makes a difference. Working together is fundamental to our success.

Excellence

We are responsible for excellence in everything we do. We believe in personal accountability and the power of challenging the status quo.

Passion

Initiative and enthusiasm characterize the way we work. We take satisfaction in the quality of what we do. We are here because we want to be here.

Learning

We believe that learning is an invigorating and continuous process. We seek out and embrace personal and professional development, and the invaluable lessons that come from experience.

contents

Message from the chairman and President

Creating Capacity

Canadian companies want to reduce the risks and reap the rewards of doing business internationally. Our 1999 results powerfully demonstrate how EDC is helping them make this happen. Together, we are bringing home new jobs, fresh ideas and enduring prosperity.

Through EDC's trade finance and insurance services – combined with our risk management and deal-structuring expertise – we create opportunities and increase the capacity for Canadian firms of all sizes to export and invest in some 200 countries. In 1999, we served a record 5,182 customers – of whom some 88 per cent were small- and medium-sized enterprises (SMEs). This represents 16 per cent more customers than in 1998.

We also measure our success by how well we impact our nation's trade balance – that is, the volume of export sales and foreign investment that we help generate for Canada. In spite of residual international uncertainty from the Asian financial crisis, the volume of exports and investments that EDC supported in 1999 totaled $40.1 billion. This is a solid 15 per cent more than in 1998. Overall volume of Canadian exports and investments, in comparison, rose by 11.9 per cent – largely driven by automotive sector activity.

Our corporate objective for 2000 is to create and deliver capacity, capability and opportunities in support of Canadian companies pursuing international business.

Maintaining Customer Satisfaction

A third and vital measure of EDC's success is in maintaining high customer satisfaction. This translates into customer loyalty and continued growth – theirs, ours and Canada's. Once again, EDC gained high marks for customer service in 1999. Our overall score, compiled from interviews with nearly 950 customers, was 80.4 per cent – up from 79.8 in 1998. This score largely assesses our risk appetite, responsiveness, flexibility in designing solutions, foreign market knowledge and relevant products and services.

Two financial measures of success stand out in 1999: our financial sustainability ratio and our internal efficiency ratio. The first ratio reflects EDC's ability to take on the risks of more and more of our customers' growing export activities, while remaining financially self-sufficient. With a net operating income of $641 million – before prudential reserves of $523 million – we achieved a ratio of 14.6 per cent, within our targeted range. The second ratio, computed on a basis consistent with other financial institutions, ensures that our administrative expenses increase in step with the growth of our operating income. Again, our 1999 ratio of 13.5 per cent is very positive – bettering its target of 16 per cent and substantially less than most other similar financial institutions.

Striking a Dynamic Balance

Our 1999 results are a powerful testament to how we seek to balance the best of public policy with the best of private-sector methods.

We are encouraged by the strong endorsement of EDC in the *Report on the Review of the Export Development Act* (tabled in Parliament in July 1999), by the law firm Gowling, Strathy & Henderson. This report was followed in December 1999 by the Standing Committee on Foreign Affairs and International Trade's (SCFAIT's) report entitled *Exporting in the Canadian Interest: Reviewing the Export Development Act.* Both documents bring forth two key points: that EDC's unique business model works; and that the flexibility of the Act enables EDC to meet the needs of exporters and investors of all sizes.

Overall, the mandate review offers a valuable launching pad for EDC to develop solutions for Canadian enterprise, especially for smaller businesses. It also positions us to achieve our leadership vision, for the sake of Canadian competitiveness and, ultimately, for Canada's economic and social well-being.

Helping Smaller Exporters Branch Out

Small business is one of Canada's most critical areas of economic activity. SMEs make up 97 per cent of Canadian exporters and account for 88 per cent of EDC's client base. We are especially proud of our track record with SMEs, making EDC one of Canada's largest providers of support to small business.

The studies conducted by Environics for the Gowlings Report concluded that EDC could support a first-time exporter just as capably as a Canadian conglomerate, giving this country and its citizens a unique and valuable resource. Attesting to this, 4,550 SME customers did business in 157 countries with our support last year. Only four years after the creation of EDC's dedicated services for SMEs, this customer base has grown by 123 per cent.

Patrick J. Lavelle
Chairman of the Board of Directors

A. Ian Gillespie
President and Chief Executive Officer

In addition to our regular products and services, EDC offers many *specialized* services for SMEs, most delivered in partnership with other financial institutions. New in 1999, EDC joined with Accord Business Credit Inc. to launch ExportEase, an all-inclusive package of accounts receivable insurance, credit reporting and management functions. In 2000, we aim to find new mechanisms to reach more of these firms and help take them farther.

Supporting Higher-Risk Markets

Our volume of support on behalf of Canadian companies operating in higher-risk markets around the world provides another important perspective on our unique activities. Without EDC's assistance and deal-structuring capabilities, many of these deals would never have come to fruition. At EDC, we assess the long-term opportunities of the regions and specific buyers, and the strategic importance of the individual transactions to Canadian competitiveness. We then help Canadian firms manage the increased complexity and risks associated with exporting. Our total business volume in higher risk markets was $9.8 billion in 1999. This figure was 10 per cent higher than the previous year, and involved some 143 countries.

The risks of doing business internationally are very real for Canadian companies and for EDC. We take and manage unexpected financial risks worldwide on behalf of Canadian companies. As evidence of our increased risk profile, total claims paid in 1999 as a result of Canadian trade in 66 countries jumped to $134 million – an increase from $72 million in 60 countries the year before. Provisions for credit losses rose to $523 million from $433 million in 1998. As a result, EDC's net income fell to $118 million, from $135 million the previous year.

Expanding Our Social Responsibilities

EDC is committed to finding the right balance that meets both Canada's long-term economic interests and the environmental expectations of its citizens. After extensive public consultation, EDC formally released its *Environmental Review Framework* in 1999. The framework provides a transparent and common-sense approach to evaluating and mitigating the environmental impact of projects we support. This framework is a "living" document that will evolve as we gain experience with it and receive ongoing input from our various stakeholders.

In 1999, we also allocated more resources to building awareness of EDC's services and increasing our support to Canadian entrepreneurs developing and exporting environmental technologies and solutions. In this way – and through our international marketing capabilities – we can spread Canadian environmental know-how, technology and equipment worldwide.

> *"EDC has developed a unique blend of commercial culture and entrepreneurial enthusiasm tempered with a sense of public responsibility under its Crown corporation skin."*
>
> *– Gowlings Report*

We also added dedicated resources in 1999 to bolster our support for Canada's talented and energetic students and young entrepreneurs, through our Education and Youth Employment (EYE) strategy. By providing sponsorships and scholarships, EDC is encouraging a learning and innovation culture and helping youth see the world as their sphere of activity. We will be broadening this program in 2000.

Boosting Export and Investment Growth

In short-term insurance activities, EDC's accounts receivable insurance covers a wide range of custom-tailored offerings. In general, this insurance protects Canadian exporters from commercial and political risks that can interfere with payment after the goods or services have been contracted and/or shipped. In 1999, our short-term business was up 15 per cent from 1998. The volume of support totaled $27.6 billion, compared to $24 billion in 1998.

Short-term claims rose by 39.3 per cent in 1999, reflecting the debilitating effects of the Asian financial crisis and its spillover into many parts of the world. While we expect claims to moderate somewhat in 2000 – barring extraordinary repercussions of any Y2K-related problems – the increasing global interconnectedness and higher concentration of risk make for less-certain predictions. EDC has been working with a Canadian private-sector insurance company to bring additional capacity to the domestic credit insurance marketplace. This was recommended in the Gowlings Report and strongly supported by SCFAIT in its December report. We expect to announce such a collaborative agreement in the early part of 2000.

Our medium- and long-term financial services cover financing, including buyer, project and equity financing; political risk insurance; and medium-term insurance, including bonding and guarantee insurance. EDC achieved a record $12.4 billion in these combined activities in 1999: notably, we exceeded our insurance target by nearly 45 per cent.

Delivering Structured Finance Solutions

In 1999, EDC supported 28 projects with structured finance solutions, including limited recourse financing and political risk insurance – a marked increase over the 18 projects supported in 1998. We expect this trend to continue as companies are increasingly attracted to the risk mitigation and other benefits of tailored financing structures. The growth in EDC's structured finance activity reflects our commitment to partnering with other financial institutions around the world and being a catalyst for Canadian business participation. Through our equity financing, which grew 117 per cent in 1999, we continue to boost smaller companies' ability to operate and compete abroad.

EDC also recognizes the strategic importance of Canadians investing abroad to our country's global competitiveness. The Corporation acts as a powerful advocate internationally for Canadian know-how, quality and inventiveness. In 1999, we prepared the groundwork for EDC to increase this advocacy role and bring tangible opportunities to Canadian firms through stronger management of international relationships.

We are now ready to establish permanent EDC representatives in two key Latin American markets: Brazil and Mexico. These representatives will be responsible for increasing the opportunities for Canadian companies not only in these

In 1999, we also allocated more resources to building awareness of EDC's services and increasing our support to Canadian entrepreneurs developing and exporting environmental technologies and solutions.

two promising countries, but throughout Central and South America. EDC's centres in Brazil and Mexico will complement our well-established representation in Beijing, China.

Building Prospects for 2000

Canadian exports are forecast to grow at a healthy pace of between six and eight per cent in 2000. With the world economy continuing to expand, now is the time for Canadian businesses to penetrate global markets. With freer trade and borderless e-commerce, global growth is necessary for companies of all sizes to survive.

On the international front, we will continue to promote best environmental and commercial practices among export credit agencies. Domestically, we will build on our public disclosure practices by introducing in 2000 an enhanced framework on the disclosure of our business activities. This framework is mindful of both the public's right to know and the customer's need to protect its competitiveness.

To facilitate future growth, our contingent liability ceiling (pursuant to Section 10(3) of the *Export Development Act*) was increased last year from $15.0 billion to $17.5 billion. Following the final deposition of the five-year EDC mandate review, we will seek legislative changes to help us create, for example, a bilingual name and a more visible corporate identity. These changes respond to the results of our consumer awareness testing.

Our corporate objective for 2000 is to create and deliver capacity, capability and opportunities to support Canadian companies pursuing international business. Over the next five years, this will translate into aggressive goals of doubling our customer base, increasing our capital base one-and-a-half times, expanding our partnership network to strengthen private-sector capacity, and optimizing the use of technologies for product delivery. Concrete strategies back EDC's ability to deliver the financial capacity, skills capability and tangible opportunities for Canadians to survive and thrive internationally.

Creating a Learning and Innovation Culture

EDC's talented people are the engine that drives the Corporation to be "a recognized centre of excellence for trade finance in Canada," as described in the Gowlings Report. "[EDC's] staff is highly skilled, innovative and provides prompt, knowledgeable service."

In our knowledge-based economy, innovating, embracing change and learning new skills and behaviours hone our competitive edge. In 1999, we devoted approximately $2,000 per employee toward training and development. We trained management to motivate our people to live up to their potential and generate new ideas. Our 1999 Employee Opinion Survey results indicate that job satisfaction is very high. Most indicators exceed those of other North American organizations, including "high-quality" firms, as defined by our survey consultant.

We believe that these and other measures will ensure we are not just the largest pool of trade finance skills under one roof in Canada – but also the employer of choice in our field. An experienced and dedicated board of directors, whose strategic counsel and broad Canadian perspectives are vital to EDC's success, also backs us. In 1999, two new directors were appointed: Raymond Setlakwe and Dennis Wood, both of Quebec. We recognize the valued contributions of Marcel Dufour (Quebec) and Huguette Labelle (Ontario), who retired from the Board during the year.

In closing, we would like to reiterate our thanks to all our people and board of directors for EDC's many accomplishments in 1999. We are confident that their fresh ideas and enthusiasm will take our services, partnerships and expertise to new heights in this millennium – for our customers, for our shareholder and for all Canadians.

Patrick J. Lavelle
Chairman of the Board of Directors

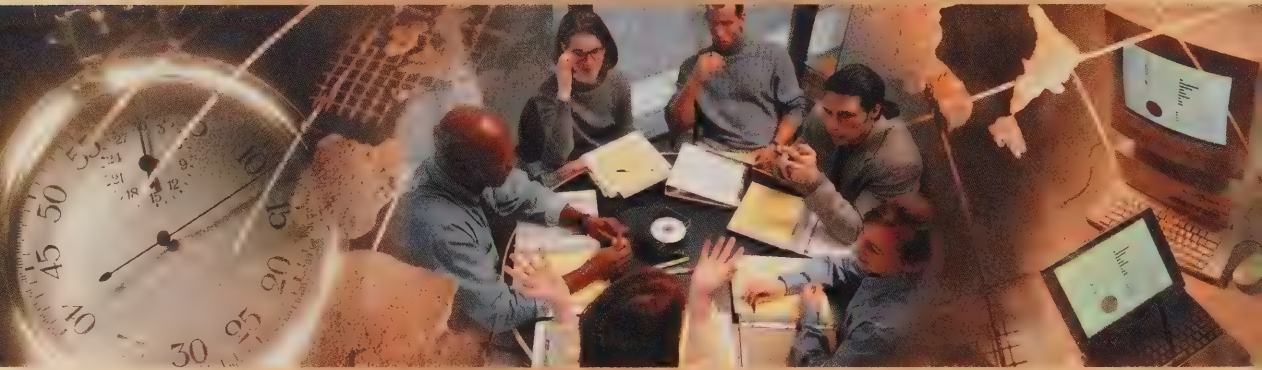
A. Ian Gillespie
President and Chief Executive Officer

Small Business, Big Results

Small- and medium-sized enterprises (SMEs) are divided into two categories: small businesses that have up to $5 million in total annual sales, and medium-sized businesses that have annual sales of between $5 million and $25 million.

In 1999:

- A record 624 emerging exporters – brand-new exporters, as well as more seasoned companies with annual export sales of up to $1 million – began insuring their export receivables with EDC.
- Some $6.1 billion in exports to 157 countries was concluded by 4,550 SMEs with EDC backing, making it a record year.
- EDC intensified efforts to become part of the SME fabric in Canada. A highlight of the year was sponsoring Junior Team Canada, where EDC's Global Training Centres brought the basics of exporting to 1,200 students from coast to coast and helped pave the way for the youth trade mission to Southeast Asia in late summer. Other EDC sponsorships included the Young Entrepreneurs Trade Mission to Silicon Valley, the Women's Trade Mission to Los Angeles and to the Canada/USA Businesswomen's Trade Summit, and NEXUS '99, organized by the Assembly of First Nations.



- SME customers registered strong overall satisfaction with EDC in the Corporation's annual customer survey. In fact, all key tracking indices (satisfaction with service levels, risk appetite, response time and the financial products themselves) recorded increases.
- In the spirit of international co-operation and learning, the chairman of US EXIM, the Argentine minister responsible for small business, and a senior-level delegation from Singapore all visited EDC for briefings exclusively relating to EDC's specialized services for SMEs. EDC played a key role in the export program of the prestigious annual International Small Business Congress. Senior SME officials from EDC participated in the Berne Union SME Workshop.
- A total of 111 customers each eclipsed $1 million in export sales. While cracking the million-dollar mark in annual revenues is a difficult but powerful milestone for small business, surpassing $1 million in *export* sales is even harder. These customers proved that achieving success abroad means achieving prosperity here in Canada.

- Small- and medium-sized capital goods exporters concluded 30 transactions in 15 countries through EDC's SME Financial Services Team. As well, NORTHSTAR Trade Finance Inc. – a strategic partner of EDC in the medium-term buyer-financing field – helped 27 exporters conclude $48 million in capital goods sales to 12 countries.

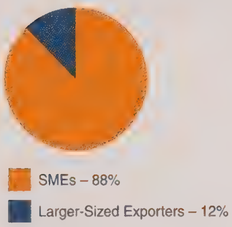
SME Scorecard

	Dec. 31 1999	Target 1999	% Achieved	Dec. 31 1998
SME – Customer count (direct and indirect)	**4,550**	4,437	103	3,664
SME – Business volumes ($ millions)	**6,122**	6,142	100	5,752
EE* – Number of new customers**	**624**	660	95	528
EE – Average credit approval turnaround time	**1.5 days**	1.5 days	–	1.6 days

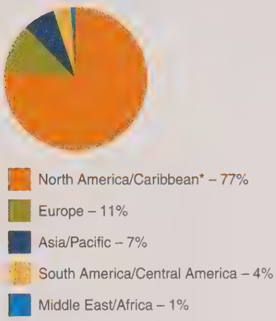
* *Emerging Exporters*

** *Results for the Emerging Exporters Team are based on direct customers only.*

SMEs as a Percentage of EDC's Customer Base

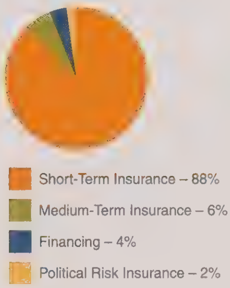


SME Volume by Geographic Market

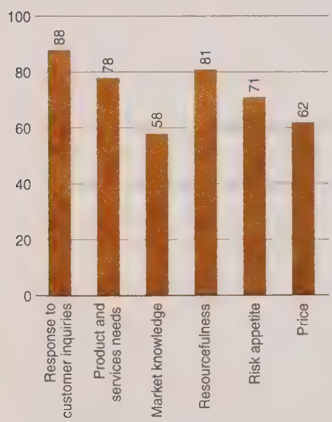


*Includes Mexico

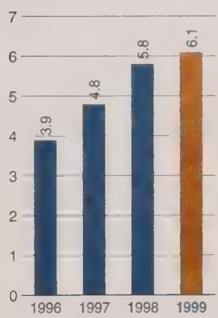
SME Product Usage



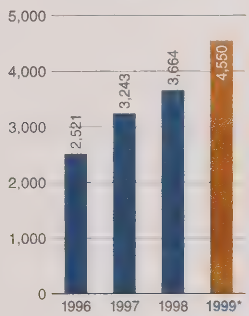
SME Service Attribute Ratings
(Per cent)



Volume Support for SMEs
($ in billions)



Number of SME Customers



* includes new customer segment

Increasing Canada's Competitiveness

By all accounts, the news is good. Canada is enjoying renewed prosperity. Unemployment is at its lowest point in 20 years; inflation is low and under control; private spending is up and fiscal deficits are down. Canada is experiencing robust growth, which is expected to remain strong in 2000. The economy is continuing its shift to the high-tech and services sectors that look set to dominate the 21st century economy.

The combined impact of trade liberalization and growing trade integration within North America have heightened Canada's dependence on trade: exports now total 41 per cent of Canada's GDP, versus 27 per cent just 10 years ago. This is the highest level in the industrialized world and three times that of the United States. Alongside the growing importance of trade, Canadian foreign direct investment (FDI) abroad has grown steadily, to the point where Canada has become a net exporter of FDI. In the years ahead, the dividends from these investments will enhance our prosperity. It is not difficult to see why Canada's economic confidence is at record levels.

Despite these gains, there are indications that Canada must take action to keep pace with the global competitive race over the long term. Per capita incomes have risen more slowly than in other countries, productivity is lagging behind our major trading partners, and Canada ranks sixth among the G-7 in terms of R&D expenditures.

EDC is open for business in some 200 markets – far more than private financial institutions are able to support.

Seizing Global Opportunities

A number of factors are at play. With the United States by far our key trading partner (currently absorbing about 85 per cent of our exports), we are left open to changes in U.S. policies and fluctuations of our dollar relative to that of the U.S. There are promising export markets in Latin America, Asia and Europe, which have been largely overlooked by Canadian exporters. Now is the time to seize these opportunities.

Trade finance is a critical ingredient for successfully exporting to these markets. Foreign buyers facing financing constraints increasingly look to their suppliers for alternative financing sources. Canadian companies are disadvantaged relative to foreign competitors that have access to deeper and broader capital markets to support their expansion abroad. EDC's activities are vital to ensuring a level playing field. It is open for business in some 200 markets – far more than private financial institutions are able to support.

Positioning Canada for Prosperity

EDC substantially contributes to the government's trade and economic policy objectives. Through its support of Canadian firms of all sizes – from giant trans-national corporations (TNCs) to smaller companies – EDC is helping to position Canada for lasting prosperity.

Despite the growth of high-tech sectors such as aerospace and telecommunications, in which Canada is a world leader, resources still account for one out of every six dollars worth of Canadian exports. The jobs supported by these resource-based exports are important. But, as a nation, we need to acknowledge that jobs outside the resource sector hold greater promise over the long term. Our goal should not be to compromise our resource strength, but to ensure that technology-based business has the tools it needs to succeed in the competitive global economy.

The Canadian dollar is second only to the Italian lira among G-7 countries in terms of its reduced buying power over the past decade. In the last couple of years, many Canadian companies have capitalized on a weak dollar to establish a market presence overseas. Yet, a weak dollar can also prevent firms from innovating, from making investments in new processes and products, and from acquiring and building assets off-shore that are needed for global success. A weak dollar also tends to undervalue existing Canadian business assets, making Canadian companies more subject to foreign acquisitions.

The recent strengthening of the Canadian currency is an extremely positive sign that Canada and the rest of the world are rebounding from the Asian economic crisis. The challenge now is to make Canadian exports more sustainable and less reliant on a weak currency.

Moving forward into the new millennium, it is time to reinforce an innovation culture focused on creating and enhancing wealth. Canadian companies innovate less than others, and we must do more. The Conference Board of Canada has defined innovation as a process "through which additional economic value is extracted from knowledge." Innovative companies are more profitable, create more value-added jobs and fare much better in global markets than less innovative companies.

Entrepreneurship is at the root of innovation. Traditionally, Canadians have resisted the risk-taking spirit that would allow them to venture out, explore and launch innovative companies that typically drive the new economy. EDC's support of small business encourages entrepreneurship by conferring to companies the ability to manage risk when they take on additional business or export to new markets. People are key to successful entrepreneurship. In this respect, Canada must strive to retain the highly skilled workers it has grown and attract those it needs to continue to flourish and innovate. This is particularly true of jobs in senior management, high-quality production, R&D, and strategic and project direction.

The aim is to encourage innovation and growth.

Broadening Our Export Focus

As the global village increasingly becomes the playing field, more Canadian companies will need to ramp up their efforts to take their business beyond our borders. Canada must strive to adopt a broader, more diversified export focus and must do so quickly. The risks are real, but so are the costs of complacency.

If Canada is to improve or even maintain its relative position, then those of us committed to trade and investment, including EDC, must find ways to help all Canadian businesses better meet the challenges and opportunities of globalization.

In its recent legislative review, EDC received a clear message from stakeholders: do more for Canadian investors, exporters and their foreign buyers. EDC can do exactly that by more extensively applying its mandate to act as a catalyst for Canadian business opportunities; by further enhancing its risk management capacity; and by notching up its efforts to partner with Canadian financial service providers. This will enhance private-sector capacity to support Canadian trade and investment over the long term – by attracting and involving financial players of every type both within and outside of Canada.

EDC will continue to play a leadership role in increasing opportunities for Canadian companies abroad and boosting their competitiveness so that we stay strong. Exporting activities contribute to Canada's long-term economic health by creating higher-paying jobs and enduring prosperity.

Canada is fortunate to have all the right tools at its disposal to be an economic world leader. Now is the time to use them.

Making the Environment a Priority

Branching Out

EDC undertook several significant initiatives to promote and strengthen its commitment to the environment in 1999. These initiatives included implementing an environmental review framework; enhancing support to Canadian environmental exporters; participating in multilateral agreements in support of environmental practices; and establishing partnerships to help share and disseminate environmental information and expertise.

Generating an Environmental Review Framework

EDC's *Environmental Review Framework,* developed in consultation with a broad range of stakeholders, was implemented in April 1999. The framework affirms EDC's commitment to environmental protection and sustainable development. It clearly states EDC's intention to refuse support for projects that do not adhere to accepted industry environmental practices. As well, the framework articulates EDC's requirements and procedures for evaluating and mitigating the environmental impact and risk associated with projects seeking EDC's support.

EDC is taking a leadership role on environmental issues by advocating and promoting best practices among those with whom it does business, consistent with its corporate values and philosophy.

In compliance with the EDC framework, all projects considered for support in 1999 were subjected to a preliminary screening process. Those with potential environmental effects were reviewed in detail by EDC's engineering and environmental specialists. Projects with potential for significant environmental effects were required to submit comprehensive environmental impact assessments (EIAs).

All projects approved for EDC support adhere to accepted industry environmental practices. These, in the vast majority of cases, are comparable to widely recognized environmental and social standards, such as those of the World Bank and other multilateral financial institutions. Where required – such as for areas where regulatory or enforcement procedures are a concern – EDC has predicated its support on regular monitoring of and reporting on environmental and social issues.

In 1999, EDC strengthened its ability to conduct environmental project reviews by training its engineers and financial services officers and increasing its staff of environmental specialists.

Promoting Multilateral Agreements

EDC continues to play an important leadership role in the international financial community. At the OECD Export Credit Consensus in particular, we are promoting a strengthened multilateral approach on environmental practices for all trade finance institutions. A multilateral agreement is, in EDC's opinion, the most effective way to raise the yardstick in environmental performance without compromising the competitiveness of exporters.

Recognizing the importance of working towards common environmental practices, EDC became a signatory to the Financial Institutions Initiative under the United Nations Environmental Program (UNEP) in April 1999. This policy initiative provides a constructive forum for debate among financial institutions, multilateral agencies and environmentalists on a broad spectrum of issues related to the environment and sustainable development.

Building Awareness

The global market for environmental goods and services is more than $700 billion annually, with growth exceeding five per cent per year. In 1999, EDC launched an important environmental export initiative, committing more resources to help Canadian companies attain leadership in exporting environmental technologies and services.

Exporting Canadian expertise, technology and equipment is, in EDC's opinion, one of the most effective ways of enhancing global environmental performance.

Through trade shows and sponsorships, this initiative builds awareness of EDC within the industry. Canadian companies are advised of potential environmental opportunities abroad and how to cultivate relationships with foreign governments, project sponsors and key associations.

Canadian companies have participated in a number of major environmental projects with EDC's support. Projects supported in 1999 included: waste water treatment plants in Latin America, Asia and Africa; solid waste management services in various industrialized countries; rail transport of hazardous chemicals to replace road transport in Chile; conversion of vehicles to alternative fuels in Asia; vehicle emission testing in the United States; and environmental consulting services around the world.

Exporting Canadian expertise, technology and equipment is, in EDC's opinion, one of the most effective ways of enhancing global environmental performance.

Forging Partnerships

EDC is taking a leadership role on environmental issues by advocating and promoting best practices among those with whom it does business, consistent with its corporate values and philosophy.

Following the implementation of the *Environmental Review Framework,* EDC hosted a two-day environmental workshop in the fall of 1999, for export credit agencies and international financial institutions. This workshop – attended by some 50 representatives from 23 financial institutions – helped participants understand the technical issues surrounding environmental risk assessment of projects.

EDC was an organizer and participant at the Fifth International Roundtable Meeting on Finance and the Environment, under UNEP. The 1999 theme, "New Roles for Finance in the Race to Sustainability," brought together some 150 participants, including environmental organizations and financial institutions. Last year, EDC joined the Canadian Environmental Industries Association (CEIA) and participated in its trade mission to Mexico. EDC is also working closely with CEIA's provincial chapters to increase awareness of the Corporation's services among CEIA members.

In 2000, EDC will be a major sponsor of Globe 2000, the largest environmental conference in North America, held bi-annually in Vancouver, B.C.

Business Team Review

Creating Capacity in Industry Sectors

EDC delivers its products and services through sector-based business teams. These teams work with exporters and investors to create financial solutions that meet customers' specific needs. Through their specialized industry knowledge, EDC's business teams promote a high level of customer service.

Several product teams provide in-depth expertise to the sector-based teams. The Project Financing Team provides limited recourse financing to address exporters' needs for flexible and innovative financing. The Political Risk Insurance Team delivers leading-edge support to investors, exporters and financial institutions. The Equity Team provides supplemental, medium-term equity on a commercial basis for transactions that generate direct, quantifiable benefits to Canada. The Contract Insurance and Bonding Team delivers tailored commercial risk management solutions and indirect working capital support through EDC's contract insurance and bonding programs.

Other specialized support teams focus on risk management expertise, credit analysis, country knowledge and partnership agreements with other financial institutions.

SME Services Group

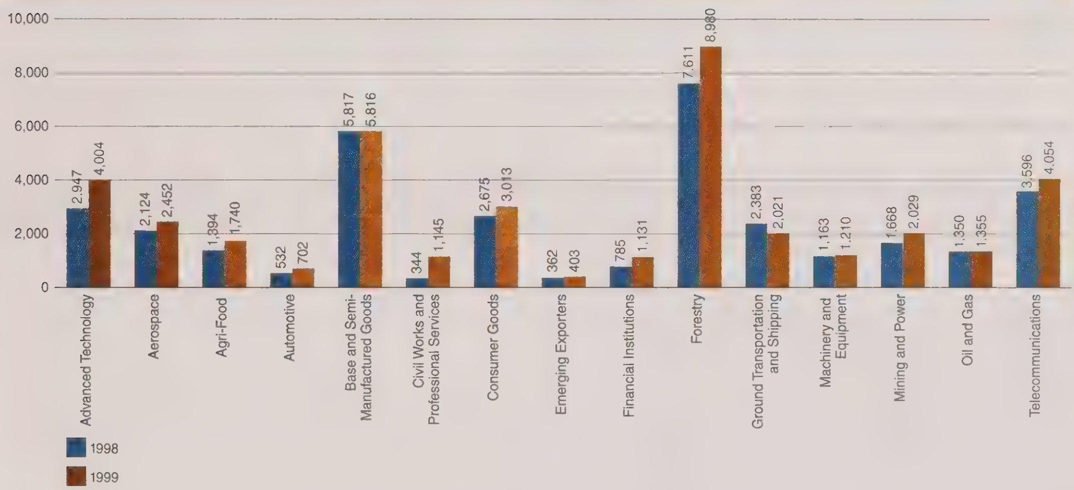
No company is too small to export, and no exporter is too small for EDC. EDC's SME Financial Services Team provides buyer-financing solutions that address the specific needs of smaller exporters. The Emerging Exporters Team works with any company having annual export sales of up to $1 million.

More small businesses went global in 1999 than ever before. These new businesses looked to EDC to provide the support they needed to succeed abroad. A total of 624 companies – many of them exporting for the first time – signed up for receivables coverage, through EDC's Emerging Exporters Team, that helped them export with confidence last year.

EDC's SME Financial Services Team and its strategic partner, NORTHSTAR Trade Finance Inc., experienced significant growth in business activity in the latter half of 1999. This growth indicates Canadian capital goods exporters have rebounded from a slow start.

Export markets can sometimes be risky and the deals made with foreign buyers challenging. EDC will therefore continue to seek ways to provide the backing that smaller exporters need – when and where they need it.

Business Team Volume Review*
($ in millions)

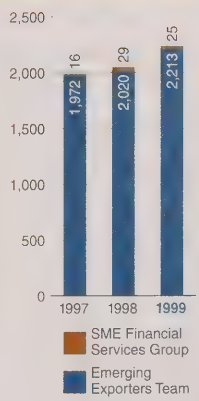


* *Individual team business volume figures prior to 1999 have been restated in this year's report to reflect the restructuring of business teams.*

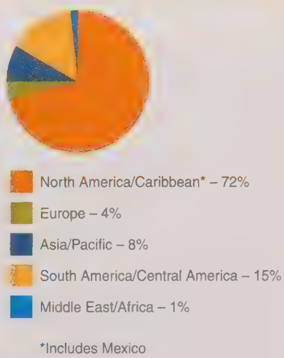
"Without EDC's support, we probably wouldn't be around today. It responded quickly when we decided to export, and the service was top-notch. EDC's support provided our bank with the assurance it needed to set up our line of credit."

Clifford Dyke
Director, Finance and Administration
Newsul Enterprises Inc.
St. John's, Newfoundland

Customers Served



Business Volume by Geographic Market



Advanced Technology Team

The Advanced Technology (AT) Team serves exporters in several sectors, such as electronic parts, computers, instrumentation and software services. The AT Team and the Telecom Team form a fully integrated team offering customers one-stop shopping for their short-, medium- and long-term financial services needs.

More customers, rapid growth and increasingly complex contracts characterize the AT business that EDC supported in 1999. This growth and the complexity of contractual arrangements in the sector have challenged the team to find new ways of supporting its customers' export sales.

During 1999, there was intense competition among computer equipment manufacturers, as well as continued industry consolidation. The result was elevated credit risk in the major distribution channels for computers, peripherals and software. As well, credit management challenges arose for the AT team and its customers. Customized software, electronic manufacturing services and instrumentation represented significant growth sectors for EDC's AT Team last year.

The year 2000 will see continued divergence of intellectual property holders and product manufacturers, as well as the convergence of content and distribution on the Internet.

Aerospace Team

The Aerospace Team continues to play an important role in supporting the Canadian aerospace industry. EDC insurance and financing support for the sales of aircraft, propulsion, helicopters and simulators, as well as for aerospace parts and services, have helped secure Canada's top-five position worldwide for aerospace manufacturing.

Last year marked several firsts for EDC's Aerospace Team, including its first financing transaction in Australia with an Australian airline. The team also supported an important helicopter order in Saudi Arabia, as well as various aircraft and aircraft engine transactions in the United States. Finally, support to several repair, overhaul and maintenance providers was also an important element of EDC's partnership with the Canadian aerospace industry.

As Canada strives to become the fourth-leading aerospace producer worldwide, EDC expects to partner with even more Canadian aerospace companies in support of this goal.

Agri-Food Team

The Agri-Food Team was formed in 1999 as a spin-off of EDC's Consumer Goods Team. The Agri-Food Team supports exporters selling a wide range of products, including specialty crops and grains, fish and seafood, fruit and vegetables, livestock, meat, hides, dairy goods, beverages and spirits, confectioneries and general food items.

The new team is well-positioned to anticipate the unique needs of agri-food exporters by keeping pace with industry trends, familiarizing itself with exporters in this sector, and understanding the risks of both exporters and their foreign buyers.

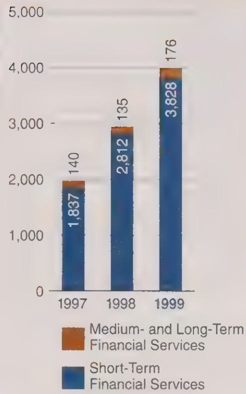
The United States will continue to be a key market for this sector. However, exporters can benefit from EDC's risk transfer services to access bank financing for expansion into emerging markets. As well, the team will continue to diversify products to meet customers' requirements.

In the future, team members will work closely with Canadian companies to find flexible solutions that will accommodate the growing demands of foreign buyers.

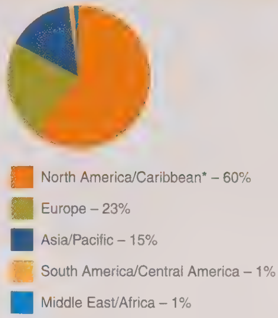
"EDC provides solutions to sales financing problems around the world, helping us take on contracts we might not otherwise consider. Its support facilitated a recent bid in Central Europe on a project that will yield benefits to thousands of cancer patients. Our EDC partnership is vital to our future growth."

Michel Landry
Director for Central and Eastern Europe
MDS Nordion Inc.
Kanata, Ontario
(former Canada Export Award winner)

Business Volume
($ in millions)



Business Volume by Geographic Market

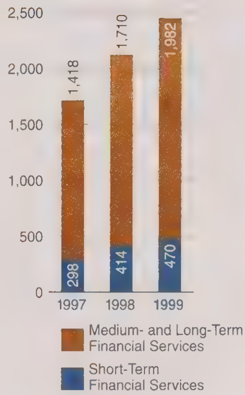


*Includes Mexico

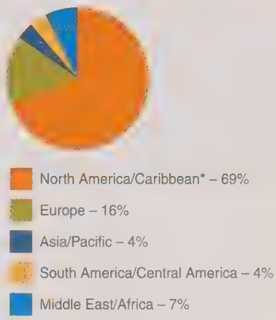
"EDC has helped us solidify relationships with key clients by providing them with effective financial solutions. EDC also served as a good source of expertise in challenging markets such as Venezuela, thereby enhancing our ability to obtain future business there."

Michael Russell
Senior Administrator, Sales Financing and Credit
Pratt and Whitney Canada Inc.
Longueuil, Quebec
(former Canada Export Award winner)

Business Volume
($ in millions)



Business Volume by Geographic Market

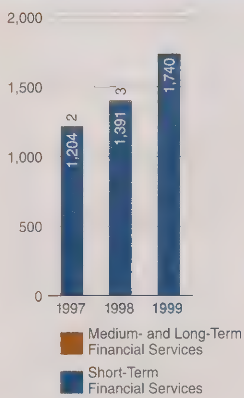


*Includes Mexico

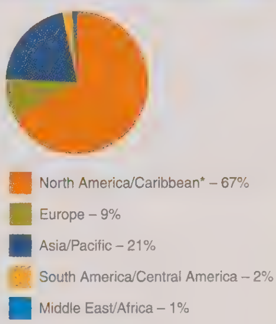
"EDC's support dramatically changed our relationship with our bank, giving it the security to increase our working line (of credit). This allowed us to increase our business worldwide. EDC's ability to immediately approve our coverage kept us competitive."

Terry Banks
President
E.S.D. Fisheries Ltd.
Lower Wood Harbor, Nova Scotia

Business Volume
($ in millions)



Business Volume by Geographic Market



*Includes Mexico

Automotive Team

The Automotive Team provides financial services to the original equipment vehicle, aftermarket parts and heavy truck sectors. Within these sectors, EDC supports manufacturers of vehicles, automotive parts, tools, dies, molds and machinery and equipment.

Last year set a precedent for automotive sales, as well as for the heavy truck market. In 1999, EDC strengthened its key partnerships with the Automobile Parts Manufacturers Association and the Automotive Industries Association. Strong customer survey results contributed to customer loyalty and repeat business. Growth also came from a new customer base.

In 2000, the United States will continue to account for the bulk of Canada's automotive exports and investments. Mexico will also remain strong, with a 50 per cent increase in vehicle production capacity forecast by 2004.

EDC is well-positioned to help customers meet the financing challenges of foreign plant expansion, and to minimize Canadian companies' risk in their foreign ventures.

Base and Semi-Manufactured Goods Team

The Base and Semi-Manufactured Goods Team works with exporters of resources and processed goods such as oil and gas, minerals, coal, steel, textiles and building products.

In a year of challenges, this sector experienced continued volatility in key markets such as South America. Prices and volumes declined across many sub-sectors, particularly in the first half of the year.

Although evidence would suggest a stabilization of commodity prices, markets will likely remain highly competitive. EDC anticipates continued rationalization and consolidation going forward.

Despite these challenges, EDC maintained its presence in markets such as South America last year. This indicates EDC is well-positioned to provide even more value to companies in managing their export risks, thereby creating opportunities for Canadian companies.

Civil Works and Professional Services Team

As part of the Engineering and Professional Services Group, the Civil Works and Professional Services Team supports sectors such as construction, engineering and business and professional services.

The Civil Works and Professional Services Team supports a wide range of export business – including relatively small service contracts, commercial and housing construction work, and larger projects to develop and build airports, toll roads, ports, water and sewage treatment plants and other infrastructure.

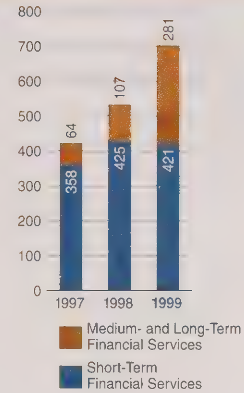
Reflecting the needs of its customers in these sectors, the majority of support delivered by this team is in the form of export insurance, contract performance guarantees and surety reinsurance.

The team experienced significant growth in both business volumes and customers served in 1999 as it increased support in its major sectors and broadened its range of services. These trends are expected to continue in 2000. Two of the drivers behind these expectations remain the relatively strong economic activity in the United States (a key market for Canadian construction companies) and the major need for infrastructure development in emerging markets.

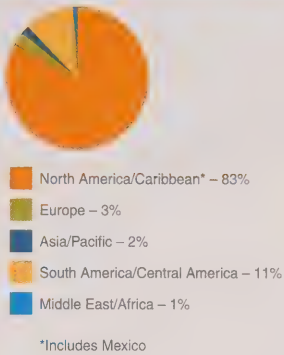
"The globalization of the automotive industry has become a reality. To maintain our competitive advantage, we provide innovative solutions to our customers' problems. For part of the financial solutions, we rely on the expertise, flexibility and support that EDC can provide globally."

Nick Sauro
Controller
Federal-Mogul Tri-Way Ltd.
Windsor, Ontario

Business Volume
($ in millions)



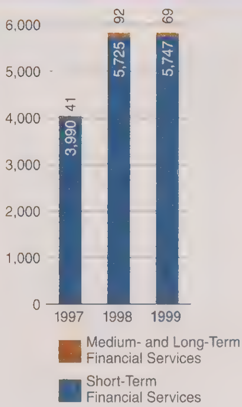
Business Volume by Geographic Market



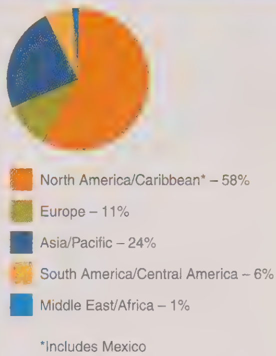
"Because the majority of our sales are exports, we truly value our partnership with EDC. Its backing enables us to enter new markets with greater confidence. This has gone a long way towards helping us realize substantial growth over the last two years."

Randy Beitz
Controller
Champion Photochemistry Limited
Mississauga, Ontario

Business Volume
($ in millions)



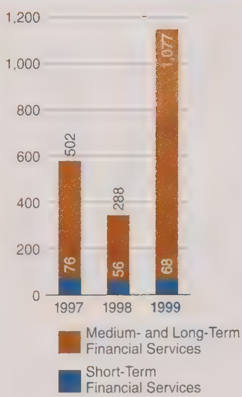
Business Volume by Geographic Market



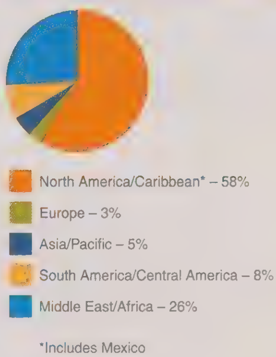
"I can attribute our company's success and growth to the assistance, co-operation and facilities provided by EDC. I hope more Canadian companies come to know about EDC and use its services."

Taha Qirbi
President
Canspect Corporation
Nepean, Ontario

Business Volume
($ in millions)



Business Volume by Geographic Market



Consumer Goods Team

The Consumer Goods Team supports a very diverse group of exporters that compete internationally in an equally diverse range of sectors, such as clothing, sporting goods, furniture and other household goods.

Demand for consumer goods continued to increase in 1999, particularly in the booming U.S. market. The U.S. retail sector still represents significant commercial risk for Canadian exporters. EDC has been there to provide risk management solutions to consumer goods companies of all sizes. This sector is characterized by many small- and medium-sized exporters that can benefit from the added financing EDC credit insurance often affords.

Because it understands the needs of, and challenges faced by, its customers and their buyers, the Consumer Goods Team can provide custom-tailored solutions.

With the U.S. retail market continuing to drive demand into the future, Canadian exporters will benefit from strong consumer spending in the United States, expected to grow by three per cent in 2000.

Financial Institutions Team

The Financial Institutions Team supports export sales in all industries that receive payments through banks in foreign markets.

In 1999, financial institutions began looking to EDC more as a strategic partner than ever before. The impact of the financial crises in Southeast Asia, Russia and Latin America affected countries directly concerned and the trade financing strategies of the banks active in those areas. To help manage their own risks, banks look to EDC for the additional reach required to continue supporting Canadian exporters in emerging and higher-risk markets.

Last year saw a continued shift in the shape of world banking, with bank bailouts, restructurings and casualties. These complexities will remain in 2000 and beyond. The EDC team is uniquely positioned to provide real value-added service with its knowledge of foreign banking sectors, credit surveillance and risk mitigation expertise.

Forestry Team

The Forestry Team supports exporters of lumber, pulp, paper and value-added forest products.

In 1999, several factors translated into increased EDC support for forest products. These included: increased demand for pulp from Western Europe and Asia; lifting of import restrictions in Brazil, which boosted support in this key market for newsprint; and lumber prices that were sustained above normal levels as a result of the healthy U.S. housing market, as well as by downtime taken by many producers.

Building on growth over the last two years, exports of Canadian forest products are expected to increase by nine per cent in 2000. This growth will result primarily from recovery in Asian markets and continued improvement in pulp and paper market conditions. EDC will continue to play an integral role in supporting this growing sector.

"EDC has helped put Aerobic Technologies on the map. Its ability to enhance our credibility with our bank has enabled us to grow our business exponentially. EDC continues to innovate, so as to provide services that best meet the needs of smaller businesses like ours."

Nat Findlay
President
Aerobic Technologies Inc.
Quebec, Quebec

Business Volume
($ in millions)

Medium- and Long-Term Financial Services

Short-Term Financial Services

**Net of agri-food volume (See page 15.)*

Business Volume by Geographic Market

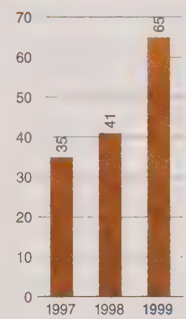
North America/Caribbean* – 93.4%
Europe – 5%
Asia/Pacific – 1%
South America/Central America – 0.2%
Middle East/Africa – 0.4%

*Includes Mexico

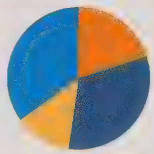
"EDC is a virtual part of our risk management team – a tremendous ally when difficult situations arise. Through EDC and its network with Canadian government representatives worldwide, I'm confident that I'm partnering with a company that has our best interest at heart."

Wing Morse
Senior Manager and Head, Stuctured Trade and Commodity Finance
Royal Bank of Canada
Toronto, Ontario

Number of Countries Insured



Business Volume by Geographic Market



North America/Caribbean* – 19%
Europe – 1%
Asia/Pacific – 32%
South America/Central America – 13%
Middle East/Africa – 35%

*Includes Mexico

"(Selling our products) to more than 50 countries would not be possible without the support of EDC. In many overseas markets, payment terms play a key role in our ability to develop and maintain our market presence. We view our relationship with EDC as an integral component of our credit management strategy."

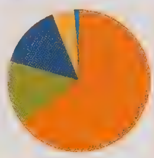
E.R. Seraphim
Managing Director, Pulp and Paper Marketing
West Fraser Timber Co. Ltd.
Vancouver, British Columbia

Business Volume
($ in millions)

Medium- and Long-Term Financial Services

Short-Term Financial Services

Business Volume by Geographic Market



North America/Caribbean* – 64%
Europe – 15%
Asia/Pacific – 15%
South America/Central America – 5%
Middle East/Africa – 1%

*Includes Mexico

Ground Transportation and Shipping Team

The Ground Transportation and Shipping Team serves Canadian industry in shipbuilding and repair, railroad rolling stock and other transportation equipment.

The Ground Transportation and Shipping Team experienced a number of significant events in 1999. The team was proud to support its first sales of freight cars to a U.S. buyer and locomotives to Mexico.

Last year also marked a significant step for EDC as it began to actively support Canadian companies in the shipbuilding sector. The Corporation financed transactions involving a floating oil platform, new ship construction and ship repairs.

Canadian shipyards and EDC are currently undertaking joint business development initiatives to secure an even greater amount of business in 2000 and beyond.

Machinery and Equipment Team

The Machinery and Equipment Team covers a number of sectors, including equipment and services for the plastics and packaging sector and the pulp and paper sector.

EDC's support for the plastics and packaging sector has grown by 100 per cent over the last three years. Canadian exporters have benefited from EDC's services to increase their sales and improve their working capital while minimizing payment risk.

EDC's participation in the paper and forestry sectors has traditionally involved large projects. More recently, EDC's role has focused on partnering with exporters, investors and other financial institutions to broaden its involvement in the machinery and equipment sector. By developing more in-depth knowledge and visibility, EDC aims to increase procurement opportunities for Canadian suppliers. As the landscape is changing rapidly, opportunities continue to arise. EDC is well-positioned to support its customers.

The growth prospects for the pulp and paper sector are good in the short term, with important capital investments likely to take place in 2000 and 2001. In addition, North American and European markets are focusing on improved plant efficiencies and value-added product strategies. This represents a growing niche for suppliers of goods and services to this sector.

Mining and Power Team

The Mining and Power Team supports sales and investments made by suppliers and sponsors in both sectors.

Support for the Antamina copper-zinc mine in Peru in 1999 demonstrates EDC's ongoing commitment to helping Canadian project developers in the global marketplace. Similar facilities concluded with Codelco in Chile and Grupo Minero Mexico acted as catalysts for sales made by smaller-sized Canadian suppliers.

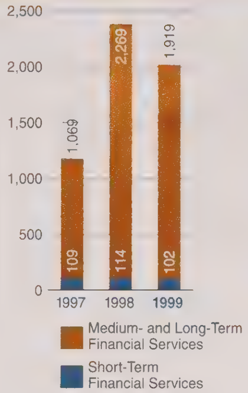
Looking ahead, opportunities exist to sell Canadian mining expertise for upgrades and existing production facilities in Latin America. Development opportunities are also emerging in Africa.

Restructuring of the electrical industry is increasingly becoming a catalyst for economic growth in this sector. We see opportunities in the United States for merchant power projects, as well as in emerging markets for projects such as Sidi Krir in Egypt and the Chamera hydroelectric project in India.

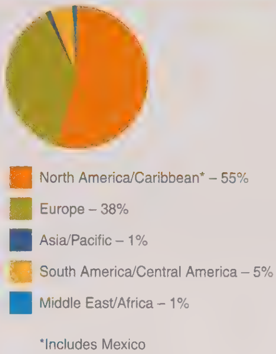
"EDC has recognized our financing issues and has been innovative in looking for ways to meet the needs of our industry. EDC's proposal for the financing of ship repairs on vessels operating on international routes is an example of what can be done when there is a will to do so."

Peter Cairns
President, Canadian Shipbuilding Association
Ottawa, Ontario

Business Volume
($ in millions)



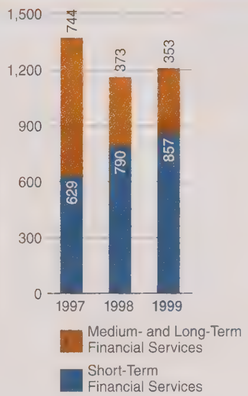
Business Volume by Geographic Market



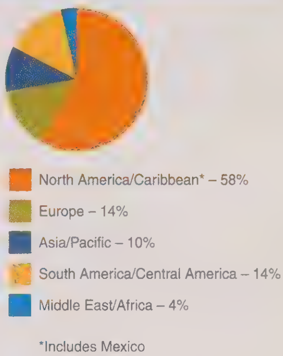
"Like any company, our success depends on our ability to stay competitive, manage an efficient cash flow and win the next contract. EDC has been an important ingredient in helping us free up working capital, as we move forward."

Stefan Lupke
Executive Vice President
Corma Inc.
Concord, Ontario

Business Volume
($ in millions)



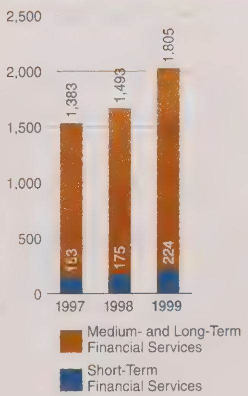
Business Volume by Geographic Market



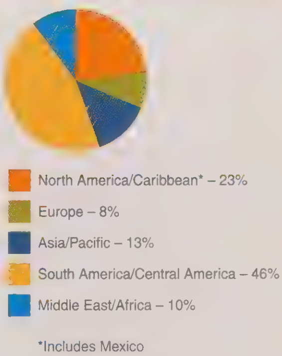
"EDC's continued support, specifically in providing project financing and extending Performance Security Insurance and Performance Security Guarantee coverage, has allowed Sandwell to undertake more and larger marine concentrate terminal projects for major mining clients such as Collahuasi and Antamina."

Richard Fraser
Vice President, Corporate and Project Development
Sandwell Engineering Inc.
Vancouver, British Columbia

Business Volume
($ in millions)



Business Volume by Geographic Market



Oil and Gas Team

The Oil and Gas Team provides insurance and financing support to Canadian exporters and investors across the petroleum industry, including exploration and development, storage, transportation, processing, plant and equipment manufacturing and engineering and service contracts.

Last year can be best characterized as a year of extreme volatility in the oil and gas sector. Nevertheless, EDC provided $1.3 billion in support of Canadian investors and exporters engaged in international activity.

Having a team devoted solely to the oil and gas industry has enabled EDC to work more closely with its clients. As a result, EDC can bring tailor-made financial and risk management services that leverage international opportunities for Canadians.

Notable examples of support provided to major projects in which Canadians are involved include the Cantarell Nitrogen plant in Mexico, the Qatar Chemical Project, and the Maritimes/Northeast Pipeline, which runs from Nova Scotia to New England.

Telecom Team

During 1999, EDC's Telecom Team grew significantly to meet the growing demand for its services from telecom exporters.

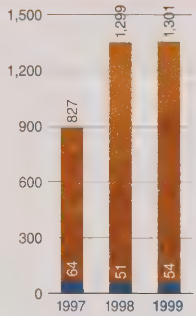
The Internet has become a global driver in the growth of the telecom sector. Looking ahead, the Internet is forcing businesses to reconsider how they interact with customers and suppliers to gain a competitive advantage. Internet growth is forcing traditional telecom operators to provide the network capacity and data speeds required to unlock the Internet's true business potential.

Canada's strengths in key Internet technologies such as fibre optics, high-capacity switching and broadband wireless access have positioned our exporters to prosper from this new economy. EDC's Telecom Team will continue to work closely with its clients to help them manage the risks that this new world entails.

"EDC's Oil and Gas Team provided both financing and insurance support for our international drilling business. The team consistently demonstrates timely service with a sound understanding of our business needs within the international market."

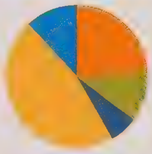
Dale E. Tremblay
Senior Vice President
Finance & Chief Financial Officer
Precision Drilling Corporation
Calgary, Alberta

Business Volume
($ in millions)



Medium- and Long-Term Financial Services
Short-Term Financial Services

Business Volume by Geographic Market



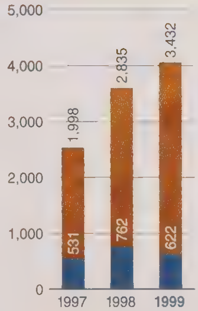
North America/Caribbean* – 23%
Europe – 12%
Asia/Pacific – 7%
South America/Central America – 46%
Middle East/Africa – 12%

*Includes Mexico

"A strong alliance with EDC's team provides us with access to extensive telecommunications financing experience, flexibility and timely and innovative risk management solutions. They have been instrumental to our export success."

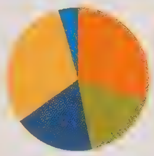
W. Ronald Couchman
President and CEO
SR Telecom Inc.
Saint-Laurent, Quebec
(former Canada Export Award winner – Lifetime Achievement)

Business Volume
($ in millions)



Medium- and Long-Term Financial Services
Short-Term Financial Services

Business Volume by Geographic Market



North America/Caribbean* – 30%
Europe – 17%
Asia/Pacific – 18%
South America/Central America – 31%
Middle East/Africa – 4%

*Includes Mexico

Executive Management Team

Eric Siegel
Executive Vice-President, Medium- and Long-Term Financial Services

A. Ian Gillespie
President and Chief Executive Officer

Rolfe Cooke
Senior Vice-President, Short-Term Financial Services

Gilles Ross
Senior Vice-President, Legal Services and Secretary

Peter Allen
Senior Vice-President and Chief Financial Officer

Management Representatives

Jim Brockbank
Risk Management Office

Jim Christie
Western Region

Jim Curley
Credit Surveillance and Analysis

Don Curtis
Industrial Equipment

Christine Dennison
Human Resources

June Domokos
International Markets

Peter Foran
Information Technologies

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance and Control

Pierre Gignac
Claims and Insurance Accounting

Peter Hepburn
Structured Finance

Glen Hodgson
Government and International Relations

John Hutchison
SME Services

Harry Kaunisviita
Corporate Business Systems

Louise Landry
Corporate Performance and Communications

Marc Leduc
Legal Services

Marie MacDougall
Capital Markets

Tom Martin
Financial Planning and Systems

Mike McLean
International Markets

Keith Milloy
Short-Term Insurance

Mike Neals
Marketing

Sherry Noble
Engineering and Professional Services

Kevin O'Brien
Transportation

Brian Pearce
Internal Audit and Evaluation

Stephen Poloz
Economics

Ed Simac
Information Systems

Henri Souquières
Quebec and Atlantic Region

1999 Financial Review

operating Highlights

Income Statement Discussion

Net Income

Net income reported for 1999 was $118 million, a decrease of $17 million over the 1998 level of $135 million. Despite this decrease in net income, net operating income increased by $73 million to $641 million for 1999. Strong loan asset growth, reclassification of Peruvian sovereign loans to performing from impaired, and higher insured volumes fueled the 1999 increase. This increase was offset by a higher provision for credit losses to provide for the increased impairment in the commercial portfolio mainly due to the outcome of economic events affecting Asia, Russia and Latin America. In addition, administrative expenses were higher primarily as a result of increased human resources, technology and occupancy costs due to the higher volumes of business. As well, administrative expenses increased in 1999 due to the costs associated with Year 2000 readiness.

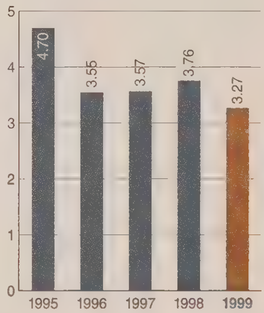
The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Net income	**118**	135	128	112	44
Shareholder's equity	**1,798**	1,680	1,545	1,417	1,173
Return (%) on shareholder's equity	**6.6%**	8.0%	8.3%	7.9%	3.8%

Net Interest Income

The 1999 net margin of 3.27%, which is net income expressed as a percentage of average performing assets employed, decreased by 49 basis points from the 1998 level of 3.76%. Loan and investment prepayments resulted in accelerated investment and fee revenue in 1998 of $34 million and a shift in foreign exchange translation from a gain of $13 million in 1998 to a loss of $12 million in 1999, which accounted for 65% or 32 basis points of this decrease. Increased liquidity in preparation for Y2K caused a further decline of 15 basis points as cash, marketable securities and investments increased by 45% without a corresponding increase in net interest income. The unusually high net margin in 1995 resulted from $127 million of receipts for impaired loans which increased income and the net margin by 1.44% to 4.70%. This practice changed in 1996 when the Corporation introduced its accounting policy for impaired loans.

Net Margin
(%)

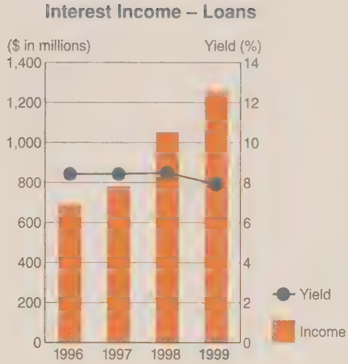


The following table shows both the net interest income, as reported in the financial statements, and adjusted net interest income:

($ in millions)	**1999**	1998	1997	1996	1995
Average gross loans receivable	**17,331**	14,286	11,129	10,073	9,803
Average cash, marketable securities and investments	**2,758**	1,908	1,759	1,701	1,269
Less: average impaired loans	**1,468**	1,861	1,869	1,919	2,247
Total average assets employed	**18,621**	14,333	11,019	9,855	8,825
Interest income:					
Loans	**1,258**	1,055	782	688	813
Marketable securities and investments	**146**	126	92	99	87
Total interest income	**1,404**	1,181	874	787	900
Interest expense	**796**	642	481	437	485
Net interest income	**608**	539	393	350	415
Net margin	**3.27%**	3.76%	3.57%	3.55%	4.70%

Interest Income – Loans

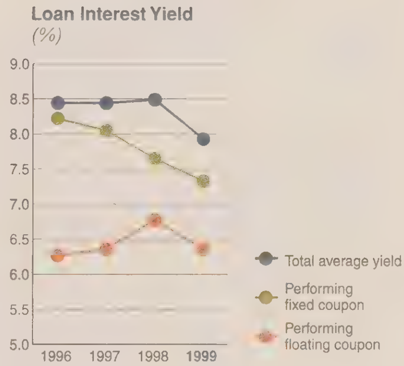
For 1999, loan interest income was $1,258 million, an increase of $203 million or 19% from the level of $1,055 in 1998. The performing gross loans receivable averaged $15,863 million in 1999 (1998 – $12,425 million) with an average rate of 7.93% (1998 – 8.49%). The growth in performing loans of $3,438 million or 28% over 1998 was mainly caused by record disbursements in 1999 of $6,374 million, while repayments were $3,380 million. As well, Peru sovereign loans of $647 million were reclassified to performing from impaired in May of 1999.



Components of change in interest income – loans from prior year

($ in millions)	
Volume increases	247
Rate decrease	(50)
Increase in other loan interest	10
Foreign exchange impact	(4)
Net change in interest income – loans	$203

Performing fixed rate loans receivable averaged $7,005 million in 1999 (1998 – $ 5,906 million) with an average coupon yield of 7.35% (1998 – 7.65%) earning interest of $515 million (1998 – $452 million). The coupon on performing fixed rate loans receivable continued to decline in 1999, as it has since 1996. This was due to the replacement of older loans earning higher interest rates reflective of previous periods, with current loan signings which carry lower interest rates. New fixed rate loans signed in 1999 yielded 7.38% which is slightly above the 1999 average coupon yield.



The performing floating rate loans receivable averaged $8,858 million in 1999 (1998 – $6,519 million) with an average coupon rate of 6.46% (1998 – 6.78%) earning interest of $572 million (1998 – $442 million). U.S. dollar LIBOR averaged 5.75% in 1999, a decline of 38 basis points over the 1998 average. The U.S. dollar LIBOR decline reduced floating rate interest income accordingly and led to lower yields on the floating rate loans portfolio.

The following table analyzes loan interest income as a percentage of the average loans receivable:

($ in millions)	**1999**	1998	1997	1996
Gross loans receivable:				
Average performing fixed rate	**7,005**	5,906	4,685	4,281
Average performing floating rate	**8,858**	6,519	4,575	3,873
Average performing gross loans receivable	**15,863**	12,425	9,260	8,154
Interest income – loans:				
Performing fixed rate interest	**515**	452	377	352
Performing floating rate interest	**572**	442	291	243
Other loan interest	**171**	161	114	93
Total interest income – loans	**$1,258**	$1,055	$782	$688
Yields – performing loans:				
Performing fixed rate coupon	**7.35%**	7.65%	8.05%	8.22%
Performing floating rate coupon	**6.46%**	6.78%	6.36%	6.27%
Total loan interest yield	**7.93%**	8.49%	8.44%	8.44%

Other loan interest income comprises loan fee income and non-accrued capitalized interest (NACI) income. Total loan fee income was $96 million in 1999, compared to $113 million in 1998, a decrease of $17 million. In 1998, loan prepayments caused an increase in fee income of $21 million, which did not occur in 1999. NACI revenue was $69 million in 1999, $21 million higher than in 1998. This increase is due to the amortization of NACI as income for sovereign loans in Peru, which were reclassified to performing from impaired. Cash receipts from impaired loans increased other loan interest income in 1999 by $6 million.

Interest Income – Marketable Securities and Investments

Marketable securities and investment income increased by $20 million between 1998 and 1999. The net impact of higher overall investment volumes and a decrease in the general level of interest rates account for this change.

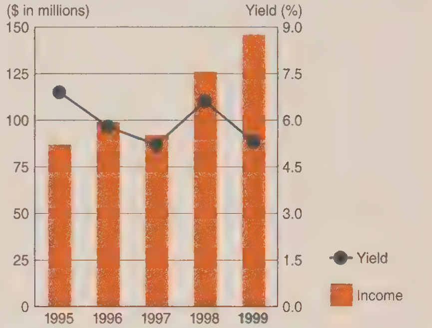
Average investment balances increased from $1,908 million in 1998 to $2,758 million in 1999. During the latter part of the year, EDC implemented a strategy to increase investments to ensure that the Corporation would have sufficient liquidity to support its financial operations through the critical Y2K period.

Components of change in interest income – marketable securities and investments from prior year

($ in millions)

Volume increases	57
Rate decrease	(37)
Net change in interest income – marketable securities and investments	$20

Marketable Securities and Investment Interest Income



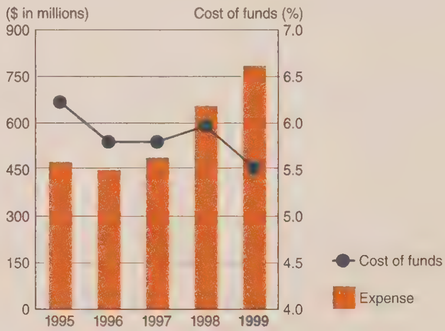
Investment yields decreased from 6.62% in 1998 to 5.29% in 1999. This reflects the fact that interest rates in Canada and the United States were at higher levels during most of 1998 relative to 1999. The Federal Reserve Bank and the Bank of Canada began an easing trend during the latter part of 1998, which lasted most of 1999. The higher yield in 1998 also reflects the early retirement of one investment where the settlement amount included, in addition to principal, an amount of $13 million. This represented interest that would have accrued had the investment remained outstanding until maturity.

Interest Expense

Interest expense increased by $154 million between 1998 and 1999. Three factors account for this change: an increase in overall debt volume, a decrease in the general level of interest rates, and the impact of changes in foreign exchange rates on the translation of foreign currency balances.

The increase is primarily the result of higher borrowing requirements necessary to support elevated lending volumes and investment levels. The average balance of short-term debt increased from $2,979 million in 1998 to $3,429 million in 1999. The average balance of long-term debt also increased from $7,994 million in 1998 to $10,765 million in 1999.

Interest Expense
(Excluding Foreign Exchange Translation Gain/Loss)



Components of change in interest expense from prior year

($ in millions)	
Volume increases	180
Rate decrease	(49)
Foreign exchange impact on interest expense	(2)
Net change prior to foreign currency translation loss	129
Change in the Corporation's foreign currency translation loss	25
Net change in interest expense	$154

Levels of interest rates both in Canada and the United States were lower in 1999, relative to 1998. This was reflected in the cost of funds, which decreased from 5.97% in 1998, to 5.52% in 1999.

A strengthening of the Canadian dollar during 1999 also helped to reduce interest expense on foreign currency denominated debt by $2 million.

Interest expense, as reported on the income statement, includes the Corporation's foreign exchange translation gain/loss for the year. Included in interest expense for 1999 is a translation loss of $12 million (1998 – $13 million gain).

Insurance Premiums and Guarantee Fees

The following table analyzes the average premium rate for insurance premiums and guarantee fees:

($ in millions)	**1999**		1998	
	$	**%**	$	%
Short-term program:				
Insured volumes	**27,625**		23,990	
Premiums and fees received	**93**		80	
Average short-term premium rate		**0.34**		0.33
Medium-term program:				
New insurance policies outstanding	**2,965**		2,160	
Premiums and fees received	**36**		28	
Average medium-term premium rate		**1.21**		1.30
Loan guarantees				
Loan guarantees average exposure	**1,795**		826	
Loan guarantee fees earned	**8**		6	
Average loan guarantees fee rate		**0.45**		0.73

Short-term insurance premium receipts contributed $93 million, or 72% of 1999 premium receipts, an increase of 16% over 1998. This was the direct result of the growth in short-term insurance volumes, which increased by $3,635 million, or 15% over 1998.

The medium-term premium receipts for the year totaled $36 million, an increase of 29% over 1998. New policies outstanding in the medium-term programs increased by $805 million, or 37% over 1998. This increase was primarily due to the growth in both the performance security and surety bond programs, which increased by $454 million and $280 million from 1998 levels. The growth in the surety bond program, which carries a lower average premium rate, was the principal driver for the decrease in the average premium rate within the medium-term programs for 1999. The decrease in the average loan guarantee fee rate despite an increase in the average loan guarantee exposure to $1,795 million or 117% over 1998 was driven primarily by the signing of a large guarantee with a high investment grade counterparty.

Provision for Credit Losses

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Provision for credit losses pertaining to:					
Loans	**397**	313	184	190	327
Insurance	**133**	88	59	68	49
Loan guarantees	**(7)**	32	52	12	14
Total provision for credit losses	**$523**	$433	$295	$270	$390

In 1999, a provision charge for losses on loans was made to the income statement in the amount of $397 million (1998 – $313 million). Approximately $286 million (1998 – $276 million), or 72% (1998 – 88%), can be attributed to portfolio growth. The remainder resulted from impairment in the commercial portfolio and increased provisioning due to downgraded credit ratings. The portfolio growth occurred principally in the commercial sector, with substantial increases in speculative grade loans.

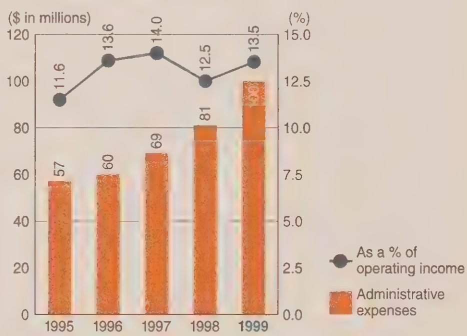
During the year, there was a $133 million charge to the income statement for the provision for insurance claims. The increase in current insurance claim provisioning levels was partly the result of the year-end actuarial allowance valuation based on continued growth in the insurance portfolio. Of the total provision for insurance claims, $82 million was due to the re-evaluation of recoverable claims that were written off in 1999 (1998 – $39 million).

A recovery of credit losses for loan guarantees of $7 million was made in 1999. This was the result of reductions on existing outstanding guarantees, coupled with slow growth in new signings.

Administrative Expenses

Net administrative expenses for 1999 totaled $100 million, an increase of 23% from the prior year. The additional administrative expenses were predominantly the result of head count growth. Consequently, expenditures for salaries, benefits, technology and occupancy were higher. Further contributing to the increase were the costs associated with Year 2000 readiness. Expressed as a percentage of operating income (efficiency ratio), administrative expenses increased to 13.5% in 1999, from 12.5% in 1998.

Administrative Expenses



Corporate Plan Discussion

Comparison to 1999 Plan

Business volumes for 1999 reached a record $40.1 billion, an increase of 15% over the 1998 level of $34.8 billion, and exceeded the 1999 planned volume of $35.0 billion. This increase over plan can be attributed to each of the Corporation's programs. Medium-term insurance volumes surpassed plan by $3.0 billion, short-term insurance by $1.5 billion and financing by $0.6 billion.

The impact on the Corporation's balance sheet of past years increased loan signings volume generated a 12% increase in net loans receivable and a 17% increase in loans payable over the 1999 Plan. Loans payable increased to a greater extent than loan assets, since cash and investments were augmented by 28% over the plan to provide sufficient liquidity for the Y2K transition period.

The 1999 net income of $118 million fell short of the $160 million projected in the 1999 Corporate Plan. While net interest income and insurance premiums and guarantee fees exceeded planned amounts by $32 million as a result of higher than anticipated business volumes for 1999, these increases were offset by a $77 million increase in the provision for credit losses over Plan. The provision increased in excess of planned amounts due to the increased impairment in the commercial portfolio mainly due to the outcome of economic events affecting Asia, Russia and Latin America. Administrative expenses were below Plan by $3 million.

2000 Corporate Plan

The Corporate Plan projects the year 2000 business volume to reach $42.0 billion; however, revised estimates based on information available subsequent to the Plan's publication indicate that this will likely be exceeded and a more realistic target for 2000 is $45.0 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 2000 and the large amount of undisbursed loans with respect to signings from prior years.

The major planned income variances from the 1999 actual results are represented by higher net interest income, due to the planned increased loans and liquidity portfolios and increased insurance premiums and fees to reflect the planned growth in insurance volumes. This will be offset by increased provision for credit losses and administrative expenses. Provisions for credit losses are expected to be higher in 2000 due to additional provisions reflecting management's best estimates as a result of the Year 2000 impact on EDC's portfolio. Administrative expenses are expected to increase by $19 million in 2000, due primarily to a larger workforce and investments in technology.

	2000 Corporate Plan	**1999 Actual Results**	1999 Corporate Plan
Volume			
($ in billions)			
Financing	6.0	**6.1**	5.5
Medium-term insurance	5.5	**6.4**	3.4
Short-term insurance	30.5	**27.6**	26.1
Total	$42.0	**$40.1**	$35.0
Balance Sheet			
($ in millions)			
Assets			
Loans receivable	20,461	**17,168**	15,621
Allowance for losses on loans	2,738	**2,324**	2,337
Net loans receivable	17,723	**14,844**	13,284
Cash and investments	3,582	**3,398**	2,660
Accrued interest and other assets	485	**1,181**	379
Total Assets	$21,790	**$19,423**	$16,323
Liabilities and Shareholder's Equity			
Loans payable	18,732	**16,248**	13,924
Accrued interest and other liabilities	480	**923**	110
Allowance for claims on insurance and guarantees	686	**454**	434
Total Liabilities	19,898	**17,625**	14,468
Share capital	983	**983**	983
Retained earnings	909	**815**	872
Shareholder's Equity	1,892	**1,798**	1,855
Total Liabilities and Shareholder's Equity	$21,790	**$19,423**	$16,323
Income Statement			
($ in millions)			
Interest Income			
Loans	1,521	**1,258**	1,202
Marketable securities and investments	204	**146**	146
	1,725	**1,404**	1,348
Interest expense	1,038	**796**	763
Net interest income	687	**608**	585
Insurance premiums and guarantee fees	151	**133**	124
Provision for credit losses	645	**523**	446
Income after provision for credit losses	193	**218**	263
Administrative expenses	119	**100**	103
Net income	$74	**$118**	$160

Risk Management

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. EDC has policies in place to limit its exposure to interest rate and foreign exchange movements.

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet the Corporation's obligations. EDC has treasury risk management policies in place to ensure that sufficient liquidity is retained to meet operating requirements and to maintain stability in short-term borrowing programs.

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies, procedures and an internal audit department in place to minimize the possibility of material losses as a result of operational risk.

Each of the above risks is discussed in greater detail in sequence on the following pages.

Credit Risk

Credit risk represents the most substantial risk of financial loss to EDC. As at December 31, 1999, EDC has $40.8 billion of exposure to credit risk as detailed on the following page. The Corporation is continuously reviewing its processes and systems in order to improve the administration and assessment of credit risk on all agreements associated with financing, insurance and treasury transactions. The Corporation is committed to ensuring that its origination and portfolio management policies and methodologies embody relevant "best in class" practices within the private sector and the public sector.

EDC manages the credit risk associated with its exposures at the portfolio level and the transaction level.

Portfolio Credit Risk Management

In 1999, EDC completed a comprehensive review and enhancement of its credit risk management practices culminating in the approval by the Board of Directors of a new credit risk management framework. The framework establishes the approval responsibilities of the Board of Directors, the oversight responsibilities of the Risk Management Committee of the Board of Directors, and the operational, approval and reporting responsibilities of Management. Among other things, the framework includes new and improved methodologies to determine country risk limits, industry risk limits and commercial obligor risk limits. All limits are determined based on the Corporation's capital base and risk factors associated with the exposure. The framework also provides for reporting of management transaction approvals, risk aggregations and compliance with the framework to the Board of Directors on a regular basis.

Country risk is continually reviewed by the Economics Department to take into consideration any changes in the world environment or the specific country. The Economics Department risk rates all countries, and all other things being equal, the higher the country risk, the lower the country limit.

Commercial obligor risk is regularly reviewed by the Corporation to take into consideration any changes that may affect the credit risk of the commercial obligor. The Corporation risk rates all commercial obligors, and all other things being equal, the higher the risk, the lower the commercial obligor risk limit.

It is Management's responsibility to operate the Corporation's credit risk exposures within the limits established by the Board. Any exceptions to limits require specific Board approval.

Specific Transaction Risk Management

In order to better understand the credit risk associated with EDC's individual credit commitments, the Corporation is organized into business teams along industry sectors. The business teams are responsible for the proper due diligence associated with each credit commitment. Within the business team structure, each individual has a delegation of approval authority based on relevant expertise and experience. Every credit commitment (except for very small amounts) requires the approval of at least two individuals with delegated approval authority.

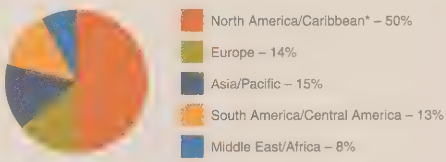
Significant potential transactions with respect to credit risk and structure are reviewed for endorsement by the Risk Management Office prior to authorization. The Risk Management Office reports to the Vice-President of Risk Management. Very significant transactions with respect to credit risk and structure are also reviewed for endorsement by the Executive Risk Management Committee. The Executive Risk Management Committee is comprised of the following six corporate officers: the President, the Executive Vice-President of Medium- and Long-Term Financial Services, the Chief Financial Officer and Senior Vice-President of Finance, the Senior Vice-President of Secretariat and Legal Services, the Senior Vice-President of Short-Term Financial Services, and the Vice-President of Risk Management. In addition, certain very significant transactions with respect to credit risk and structure require the approval of the Board of Directors.

The Corporation actively monitors and manages the credit risks associated with transactions post commitment to ensure that where there is a change in the risk the implications are assessed and managed. Where negative changes in risk have occurred, the transactions are downgraded, allowances adjusted and plans to mitigate potential losses put into place.

Concentration of Exposure

The following table reflects the major concentrations of total commercial and sovereign exposure in the geographic market and country where the risk resided for all operations at the end of 1999:

Exposure by Geographic Market



**Includes Mexico*

Country	Loans Portfolio: Gross Loans Receivable	Loans Portfolio: Undisbursed Commitments	Insurance Policies and Guarantees Outstanding: Short-Term	Insurance Policies and Guarantees Outstanding: Medium-Term	Investments and Derivative Financial Instruments*	1999 Exposure $	1999 Exposure %
($ in millions)							
U.S.	4,885	1,275	2,821	1,367	813	11,161	27
Canada	1,502**	1,270**	1,036	1,102***	2,805	7,715	19
China	1,121	585	217	174	–	2,097	5
U.K.	872	480	141	182	–	1,675	4
Brazil	738	53	419	281	–	1,491	4
Mexico	713	188	279	21	–	1,201	3
Indonesia	896	53	20	207	–	1,176	3
Peru	741	242	48	103	–	1,134	3
Venezuela	609	149	43	19	–	820	2
Germany	174	33	157	23	341	728	2
Other ****	6,347	1,017	1,966	2,095	164	11,589	28
Total	$18,598	$5,345	$7,147	$5,574	$4,123	$40,787	100%

* *Investments include amounts represented by cash, marketable securities and investments.*

** *Includes the impact of one transaction signed in 1997 for $1,497 million with recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.*

*** *Includes $1,055 million of surety bond insurance. A total of 79% of the exports insured in the surety bond program are to the United States.*

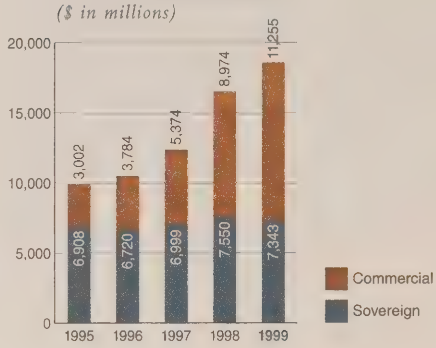
**** *Includes 122 countries with total exposure ranging from $1 million to $709 million.*

Concentration of Exposure – Loans Portfolio

Over the last four years, gross loans receivable has increased at an average yearly rate of 18%, moving from $9,910 million in 1995 to $18,598 million in 1999. This increase is due to the continued record growth in commercial loans from $3,002 million in 1995 to $11,255 million in 1999. Over the last four years, commercial loans have increased by an average yearly rate of 40%, while sovereign loans have increased at a much slower average yearly rate of 1.3%.

The mix between commercial and sovereign loans has continued to shift in favour of commercial loans. In 1995, the commercial to sovereign mix was 30% to 70%, while in 1999, it is 61% to 39%. In 1999, new signing volume to commercial borrowers accounted for 90% of total signing volume.

Gross Loans Receivable
($ in millions)

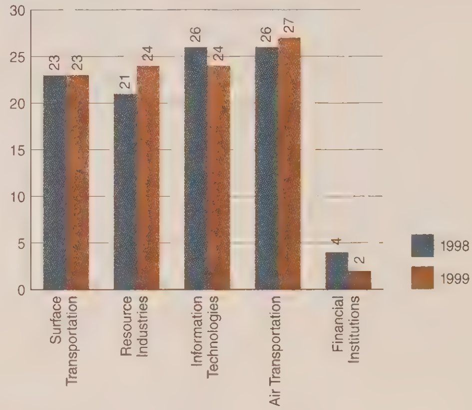


Performing Commercial Loans

As depicted, the commercial exposure in terms of industry sector mix has remained relatively unchanged, as compared to that of 1998.

Five counterparties comprising the Corporation's largest commercial exposure balances collectively represent $4,259 million or 30% of the total performing commercial exposure. Of these five, two are within the Surface Transportation sector, comprising $2,385 million, or 17%. Two counterparties are within the Air Transportation sector, comprising the remaining $1,226 or 9%. The remaining counterparty is within the Information Technologies sector, comprising $648 million, or 4%.

Performing Commercial Loans
(%)



	Gross Receivable	Undisbursed Commitments	Total Exposure	1999	Gross Receivable	Undisbursed Commitments	Total Exposure	1998
($ in millions)			$	%			$	%
Surface Transportation	2,411	851	3,262	23	1,776	1,000	2,776	23
Resource Industries	2,398	982	3,380	24	1,554	954	2,508	21
Information Technologies	2,565	831	3,396	24	2,242	927	3,169	26
Air Transportation	3,326	526	3,852	27	2,885	226	3,111	26
Financial Institutions	307	11	318	2	372	46	418	4
Total	$11,007	$3,201	$14,208	100%	$8,829	$3,153	$11,982	100%

Performing Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

	Gross Receivable	Undisbursed Commitments	Total Exposure	1999		Gross Receivable	Undisbursed Commitments	Total Exposure	1998
($ in millions)			$	%				$	%
China	1,113	564	1,677	20	China	1,221	743	1,964	23
Canada	655	896	1,551	19	Canada	424	1,130	1,554	18
Peru	625	–	625	7	Venezuela	438	282	720	9
Venezuela	473	122	595	7	Algeria	523	96	619	7
Algeria	527	28	555	7	Indonesia	488	96	584	7
Other	2,890	489	3,379	40	Other	2,672	313	2,985	36
Total	$6,283	$2,099	$8,382	100%	Total	$5,766	$2,660	$8,426	100%

The sovereign portfolio as a whole has decreased from 1998 by 1%. Peru has entered within the top five sovereign exposures due to reclassification from impaired to performing status during 1999.

The global shift from public sector financing to private sector is demonstrated in the minimal increase in the Corporation's sovereign loan portfolio. In 1999, 10% of signing volume was to sovereign borrowers as compared to 8% in 1998.

Concentration of Exposure – Insurance Portfolio

Insurance Policies and Guarantees Outstanding

($ in millions)	1999	1998
Short-term	7,147	6,850
Medium-term	5,574	4,944
Total	$12,721	$11,794

At December 31, 1999, the concentration by policy term has remained relatively unchanged from 1998 levels.

Insurance Policies and Loan Guarantees Outstanding by Policy Term

Short-Term Program

Size Concentration

During 1999, the short-term program supported 4,142 customers. In terms of total insured volume, the top five customers represented 14% of the total 1999 insured volume (1998 – 20%). The largest number of buyers in terms of aggregate credit authorizations is within the $1,000 to $500,000 range and has remained relatively unchanged from 1998 levels in terms of overall concentration.

The following table shows the number of buyers and total exposure for the year, classified by exposure size within the short-term portfolio:

	1999		1998	
$ Value of Exposure *($ in thousands)*	Total Number of Buyers	Exposure ($ in millions)	Total Number of Buyers	Exposure ($ in millions)
1–500	41,050	4,624	38,572	4,029
501–2,000	3,957	3,746	3,700	3,591
2,001–5,000	987	2,985	949	2,978
5,001–10,000	326	2,293	316	2,267
10,001 and over	257	5,688	258	5,359
Total	46,577	$19,336	43,795	$18,224

Country Concentration

The largest concentrations within the short-term program are in the following countries:

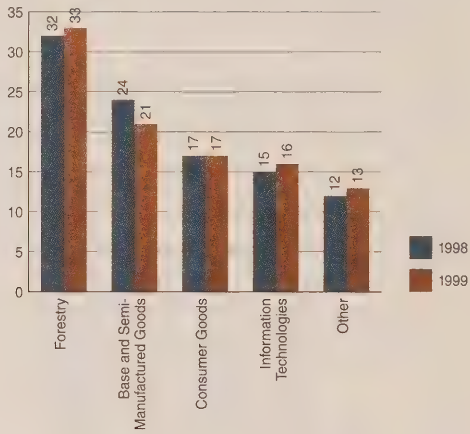
($ in millions)	1999			1998	
	$	%		$	%
U.S.	2,821	39	U.S.	2,538	37
Canada	1,036	15	Canada	1,024	15
Brazil	419	6	Brazil	353	5
Mexico	279	4	Japan	289	4
Iran	243	3	Mexico	278	4
Other*	2,349	33	Other*	2,368	35
Total	$7,147	100%	Total	$6,850	100%

* *Includes 140 countries with concentrations ranging from $.001 million to $233 million (1998 – 149 countries ranging from $.001 million to $226 million).*

Industry Concentration

The insurance policies outstanding in terms of industry concentration are as follows:

Insurance Policies Outstanding by Industry Sector
(%)



Medium-Term Insurance Program and Guarantees

Size Concentration

During 1999, 378 customers were supported in the medium-term program (1998 – 383). The top five customers in terms of insurance policies and guarantees outstanding represented 60% of the 1999 medium-term insurance policies and guarantees outstanding (1998 – 62%). The largest exposure within the top five customers is $2,276 million. The five largest policies and loan guarantees as at December 31, 1999, represent 32% (1998 – 38%) of the total medium-term policies and guarantees outstanding.

Country Concentration

As at December 31, 1999, the medium-term insurance policies and guarantees outstanding portfolio comprised 1,582 transactions in 124 countries (1998 – 1,442 transactions in 112 countries), with an average exposure of $3.5 million (1998 – $3.4 million).

The largest insurance policies and guarantees outstanding in terms of where the risk resides within the medium-term portfolio are in the following countries:

($ in millions)	1999			1998	
	$	%		$	%
U.S.	1,367	24	U.S.	1,377	28
Canada	1,102	20	Canada	674	14
Brazil	281	5	Colombia	303	6
Colombia	215	4	Brazil	301	6
Israel	214	4	Turkey	256	5
Other*	2,395	43	Other*	2,033	41
Total	$5,574	100%	Total	$4,944	100%

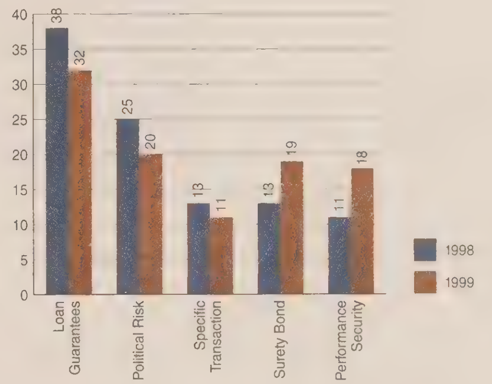
* *Includes 113 countries with concentrations ranging from $.012 million to $207 million (1998 – 105 countries ranging from $.002 million to $223 million).*

Of the total concentration in the United States, $1,298 million (95%) represents guarantees to support loan agreements. Exposure in Canada is made up largely ($1,055 million) of surety bond insurance (1998 – $659 million), 79% of which is to support exports to the United States (1998 – 86%).

Program Concentration

Performance security and surety bond exposures have increased by $474 million and $396 million over 1998 results. There was an 8% decrease in exposure in the political risk program, however volumes in this program have increased by 40% over 1998. The decrease in exposure is the result of an increase in the business assumed by reinsurers and co-insurers.

Concentration by Program
(%)



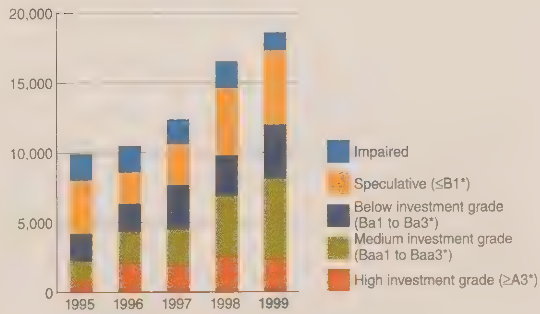
Credit Quality

Credit Quality – Loans

The performing gross loans receivable grew by 18% in 1999 to $17,290 million from the 1998 level of $14,595 million. The major factor contributing to this increase is the continued record growth in commercial signing volume, with sovereign signings remaining close to 1998 levels. Risk concentration remains comparable to 1998, with above-average growth in speculative grade financing.

Impaired loans as a percentage of total gross loans receivable declined from 12% in 1998 to 7% in 1999. In 1999, five loans were reclassified as impaired: three commercial totaling $105 million and two sovereign for $56 million. Sovereign loans to Peru in the amount of $647 million were reclassified as performing. No loans were written off in 1999 and 1998.

Gross Loans Receivable
($ in millions)



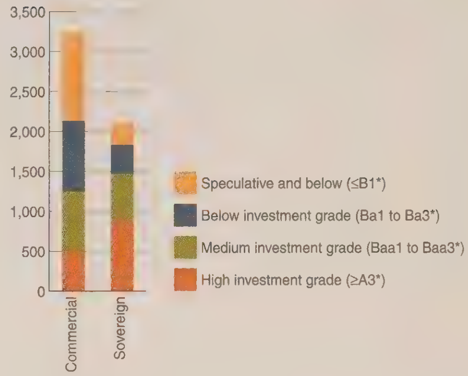
* *Moody's long-term rating*

Loan Commitments

The speculative grade category (≤B1) comprising 34% of the total commercial undisbursed commitments has increased from 27% in 1998. Conversely, the high investment grade category (≥A3) has the smallest balance of undisbursed loans at $509 million or 16%, down from 37% in 1998. This is the result of the downgrading of one counterparty with large undisbursed commitments from A to Baa in 1999.

In the sovereign portfolio, the mix between investment grades is the reverse. The speculative grade category (≤B1) has the smallest balance, comprising 13%, down from 23% in 1998. The high investment grade category (≥A3) has the largest balance of undisbursed loans at $904 million or 43%, unchanged from 1998.

Loan Commitments
($ in millions)



* *Moody's long-term rating*

The following table profiles the committed undisbursed loan balances by credit-rating grade:

($ in millions)						1999		1998
Provision category*	Commercial	%	Sovereign	%	Total	%	Total	%
High investment grade (≥A3)	509	16	904	43	1,413	26	2,301	40
Medium investment grade (Baa1 to Baa3)	739	23	567	27	1,306	25	1,060	18
Below investment grade (Ba1 to Ba3)	884	27	360	17	1,244	23	988	17
Speculative and below (≤B1)	1,107	34	275	13	1,382	26	1,464	25
Total	$3,239	100%	$2,106	100%	$5,345	100%	$5,813	100%

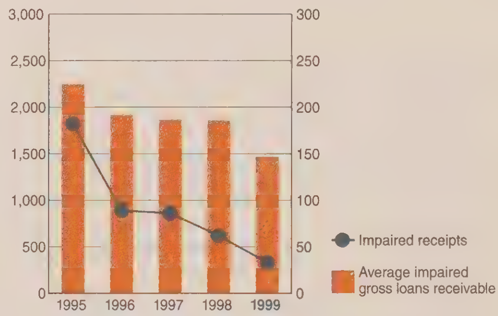
* *Moody's long-term rating*

Impaired Loans

In May 1999, Peru's outstanding sovereign portfolio of $647 million was restored to performing status as a result of a consistent pattern of payments being received over the last several years. As a result of Peru's change in status, cash flow as a percentage of average impaired gross loans receivable has declined.

As well, three commercial loans totaling $105 million and loans to Honduras ($28 million) and Pakistan ($28 million) were classified as impaired during the year. The three impaired commercial loans are reflective of the growth incurred in the commercial sector over the past several years and have been valued at their estimated net realizable value. The loans to two sovereigns have been valued at the net present value of expected cash flows in accordance with the sovereign loan allowance policy.

Impaired Receipts to Average Gross Loans Receivable
($ in millions)



($ in millions)	1999	1998	1997	1996	1995
Average impaired gross loans receivable	1,468	1,861	1,869	1,919	2,247
Impaired receipts (principal and interest)	33	62	86	89	182
Cash flow as a percentage of average receivable	2.25%	3.33%	4.60%	4.64%	8.10%

Payments received from the Government of Canada for debt relief for sovereign impaired loans totaled $59 million in 1999 (1998 – $97 million). These payments related to impaired loans in Côte d'Ivoire ($24 million), Cameroon ($19 million), Bosnia-Herzegovina ($10 million) and Senegal ($6 million). These amounts are not included as receipts from borrower countries in the chart on the previous page.

The following cash flows pertain to impaired loan debtors and represent to a large extent the long-term efforts of multilateral rescheduling arrangements through the Paris Club. The largest receipts for impaired loans including contractual principal and interest from borrowers were as noted:

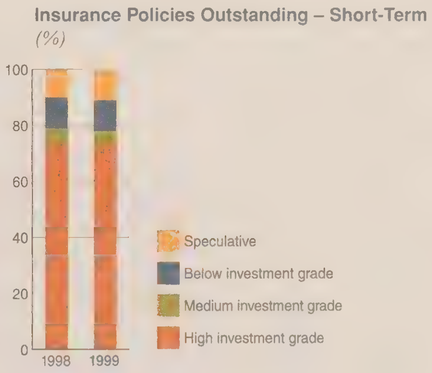
($ in millions)	1999		1998
Cameroon	13	Peru	37
Peru (impaired status only)	7	Cameroon	12
Venezuela	7	Russia	6
Other	6	Other	7
Total	$33	Total	$62

Credit Quality – Insurance

The Corporation rates country risk on a scale from 1 to 4 (high investment grade to speculative grade).

Short-Term

Within the short-term programs, the comparative spread of risk in terms of country risk classification has remained relatively unchanged from 1998 levels. The largest balance of short-term contingent liabilities is within category 1 countries, which represent $5,196 million, or 73% of total short-term contingent liabilities.

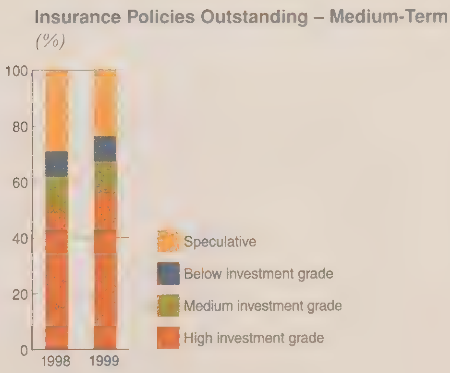


Medium-Term

Within the medium-term programs, there was a 7% increase in high investment grade concentration in 1999, when compared with 1998 levels, as well as a 5% decrease in speculative grade concentration in 1999 over 1998 concentrations.

The increase in high investment grade concentration in 1999 was partly the result of an overall increase of 6% in exposure in Canada, due to the increased use of surety bond insurance. As well, concentration of exposure in Israel increased by 4% or $213 million over 1998 levels.

The decrease in speculative grade concentration in 1999 within the medium-term programs was largely the result of decreased concentrations in Brazil, Turkey, Kyrgyzstan and Algeria, as well as an upgrade of Peru from speculative grade in 1998 to below investment grade in 1999.



Claims Experience

($ in millions)	1999	1998
Claims paid	134	72
Claims recovered	17	19
Net claims	$117	$53

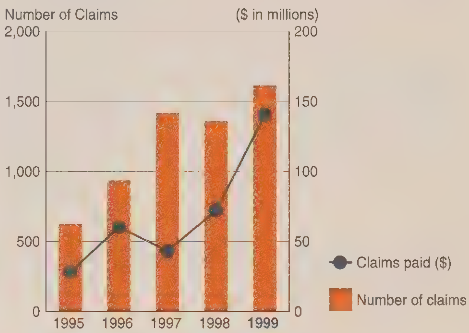
In 1999, the Corporation paid 1,622 claims in 66 countries. During the same period in 1998, the Corporation paid 1,357 claims in 60 countries.

This increase is largely related to the impact of a series of market crises, such as Russia's debt default in 1998 and Brazil's currency devaluation in early 1999. More details on the nature of these claims are provided in the following section.

There was an 86% increase in the dollar value of claim payments to $134 million in 1999 and an increase of 20% in the number of claims paid from 1998.

The claims paid as a percentage of insurance policies and guarantees outstanding over the past five years has averaged 0.72%.

Claims Paid



Size Concentration

($ in millions)	1999			1998		
	Claims Paid $	Number of Claims Paid	Claims Recovered $	Claims Paid $	Number of Claims Paid	Claims Recovered $
$0–$100,000	20	1,472	11	15	1,272	10
$100,001–$1 million	34	124	2	20	72	2
Over $1 million	80	26	4	37	13	7
Total	$134	1,622	$17	$72	1,357	$19

Due to an increase in the number of larger claim payments (over $1 million) paid in 1999, the average amount paid per claim increased to $83 thousand from $53 thousand in 1998.

Insurance Claims Paid by Geographic Market

($ in millions)	1999					1998				
Geographic Market	Default	Insolvency	Transfer	Other	Total	Default	Insolvency	Transfer	Other	Total
Middle East/Africa	1	1	–	1	3	3	–	–	1	4
Asia/Pacific	2	22	–	5	29	10	6	–	1	17
Europe	8	4	22	7	41	2	10	–	–	12
South America/ Central America	10	7	–	–	17	5	–	–	–	5
North America/ Caribbean*	23	17	–	4	44	21	8	–	5	34
Total	$44	$51	$22	$17	$134	$41	$24	–	$7	$72

* *Includes Mexico*

Default Risk

Default risk is defined as the failure of the buyer to pay by the due date all or any part of the gross invoice value of goods delivered to and accepted by the buyer.

The decrease in claim payments in Asia and Pacific for default is mainly due to a decrease in claim payments for losses in India ($5 million).

Insolvency Risk

Insolvency of the customer occurs when the customer has reorganized his financial affairs under the bankruptcy or insolvency laws of his country.

The $16 million increase from 1998 in insolvency claims paid in Asia and Pacific is largely due to an increase in payments for losses in Hong Kong ($18 million) and China ($5 million), offset by a decrease in payments for losses in Taiwan ($3 million) and Japan ($2 million).

Transfer Risk

Transfer risk is described as the restriction by a law or any governmental directive in the customer's country which restricts or prevents the transfer of currency, and as a consequence prevents the customer from making any payment required to the exporter.

The $22 million in claim payments made in Europe for transfer risk is due to failure of Russian banks to meet their obligations.

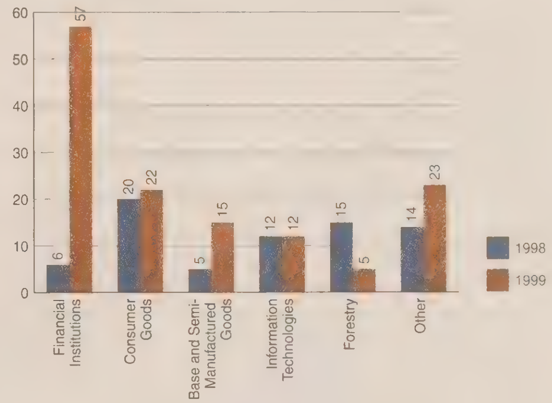
Default and insolvency claim payments on behalf of losses in Brazil ($5 million), Argentina ($3 million), Colombia and Venezuela ($2 million each) account for most of the increase in default and insolvency claim payments in South America and Central America.

The overall increase in default and insolvency claims paid within North America and the Caribbean is mainly due to increases in the United States ($15 million), offset by a decrease in Mexico ($5 million).

Industry Concentration

Within the Financial Institutions industry sector, 35 claims were paid in 1999, totaling $57 million, compared to 10 claims totaling $6 million in 1998. The majority of these claims were due to losses in Russia ($22 million) and Hong Kong ($18 million).

Claims Paid by Industry Sector
($ in millions)

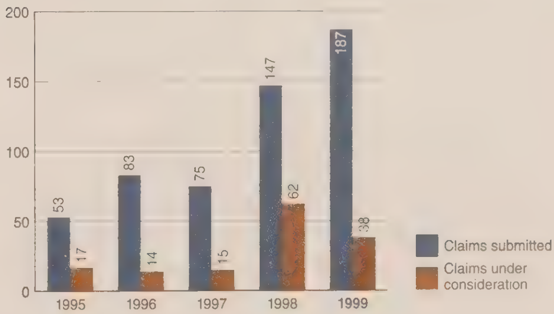


Claims Submitted

At the end of 1999, the value of the claims requests that were still under consideration was $38 million (1998 – $62 million). The five largest concentrations are related to claims pending for losses in Pakistan ($14 million), the United States ($9 million), Brazil ($3 million), Japan ($3 million) and the United Kingdom ($2 million).

The value of claims submitted has increased from $147 million in 1998 to $187 million in 1999. The top five countries with the largest claims submitted in 1999 were the United States ($56 million), Russia ($32 million), Hong Kong ($20 million), Brazil ($12 million) and Canada ($8 million).

Claims Submitted and Claims Under Consideration
($ in millions)



Credit Quality – Investments and Derivative Financial Instruments

Treasury credit risk is the credit risk associated with EDC's holdings of interest bearing deposits, marketable securities, investments and derivative financial instruments. EDC uses derivative financial instruments to convert market risk to credit risk. For interest bearing deposits, marketable securities and investments, the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. EDC's activities with respect to derivative financial instruments are discussed in greater detail in the market risk section. The Corporation's risk management policies limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded and in such cases management will determine appropriate action.

The following table provides a breakdown, by credit rating, of EDC's Treasury credit risk exposure:

($ in millions)

	Remaining Term to Maturity				
Credit Rating*	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Aaa	786	74	2	14	876
Aa1	899	193	72	60	1,224
Aa2	231	24	23	30	308
Aa3	830	225	61	79	1,195
A1	397	27	–	–	424
A2	81	15	–	–	96
Total	$3,224	$558	$158	$183	$4,123

* *Moody's long-term rating*

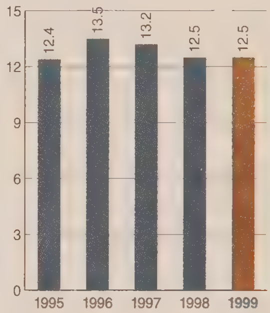
Allowances

Allowance for Losses on Loans

EDC classifies its loan assets into five categories. The first four categories represent groups of performing loans that share the same credit rating. The Corporation categorizes its performing commercial and sovereign loans using a rating system of 1 to 4 (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. The fifth category represents loans evaluated for impairment on a loan by loan basis and gives rise to the specific allowance, which is based on discounted cash flows.

EDC's level of loan loss provisioning has remained steady during 1999 at 12.5%. This was the net effect of higher provisioning on commercial loans, precipitated by a higher proportion of below investment grade loans. Offsetting commercial growth is a lower provision maintained on sovereign loans due to stable repayment patterns from impaired sovereign borrowers.

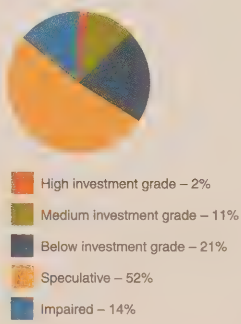
Allowance for Losses on Loans as a Percentage of Gross Loans Receivable
(%)



Commercial Allowance

The Corporation utilizes external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When external ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate credit classification. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool.

Commercial Allowance by Loan Category



The 1999 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)		1999			1998	
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
High investment grade (≥ A3)	25	1,575	2	42	2,350	2
Medium investment grade (Baa1 to Baa3)	167	4,265	4	88	2,298	4
Below investment grade (Ba1 to Baa3)	311	2,223	14	248	1,789	14
Speculative Grade (≤ B1)	764	2,944	26	604	2,392	25
Impaired	211	242	87	125	142	88
Total	$1,478	$11,249	13%	$1,107	$8,971	12%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The commercial allowance increased to $1,478 million from $1,107 million a year earlier. This is the result of strong growth in the commercial loans portfolio, particularly in those loans rated below investment grade. Loans of lower credit quality have a higher effect on the amount of allowance provided based on future expected cash flows.

The allowance required for impaired loans increased to $211 million in 1999 from $125 million in 1998. This increase can be attributed primarily to the impairment of three commercial loans totaling $105 million, causing an increase in the allowance of $79 million.

The following table outlines the changes to the allowance for losses on commercial loans:

($ in millions)	1999	1998
Balance at beginning of year	1,107	698
Portfolio growth	288	275
Credit migration	70	36
Increase due to additional impaired loans	81	23
Foreign exchange	(68)	75
Balance at end of year	$1,478	$1,107

Sovereign Allowance

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to provide a rating. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

Sovereign Allowance by Loan Category

The 1999 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)		1999			1998	
Provision category*	**Allowance**	**Exposure****	**%**	Allowance	Exposure**	%
High investment grade (≥ A3)	**1**	**747**	**–**	1	531	–
Medium investment grade (Baa1 to Baa3)	**29**	**1,454**	**2**	32	1,598	2
Below investment grade (Ba1 to Baa3)	**116**	**1,158**	**10**	107	1,069	10
Speculative Grade (≤ B1)	**509**	**2,315**	**22**	517	2,354	22
Impaired	**191**	**493**	**39**	296	746	40
Total	**$846**	**$6,167**	**14%**	$953	$6,298	15%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The level of provisioning on sovereign impaired loans has decreased by $105 million, resulting primarily from a revaluation of impaired loans to Cameroon and Côte d'Ivoire. A stable pattern of repayments has allowed the Corporation to decrease the allowance based on expected future cash flows. Also reducing the sovereign allowance is a foreign exchange translation gain of $65 million.

The following table outlines the effect of these changes on the allowance for losses on sovereign loans:

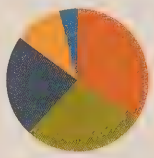
($ in millions)	**1999**	1998
Balance at beginning of year	**953**	930
Portfolio growth	**(2)**	1
Credit migration	**20**	72
Revaluation of impaired loans	**(60)**	(94)
Foreign exchange	**(65)**	44
Balance at end of year	**$846**	$953

Allowance for Claims on Insurance and Guarantees

As at December 31, 1999, the allowance for claims on insurance and guarantees is $454 million, an increase of $18 million or 4% over the 1998 allowance of $436 million. The increase in the allowance for claims on insurance and guarantees is primarily attributable to the continued growth in both the short-term and medium-term insurance portfolios. During 1999, $126 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. This was offset by charges to the allowance of $82 million, due to the re-evaluation of recoverable claims paid and by a decrease of $26 million due to foreign exchange fluctuation.

Eighty-three per cent of the total unrecoverable portion of claims paid was in the short-term program.

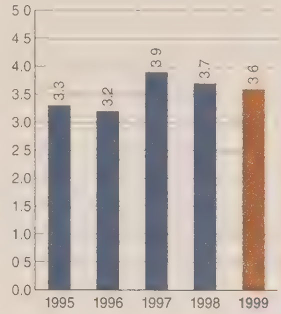
Unrecoverable Portion of Claims Paid by Geographic Market – 1999



**Includes Mexico*

The allowance as a percentage of insurance policies and loan guarantees outstanding has remained within a range of 3.2% to 3.9% averaging 3.5% over the last five years. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (frequency of claim and severity of loss) relevant for each insurance program separately and is derived from the Corporation's own experience. Moreover, the allowance includes a provision for adverse deviation such that it will be sufficient to cover all expected losses 19 times out of 20. This year's increase in the allowance results from growth in most insurance programs as well as a corresponding growth in the claims under consideration and incurred but not reported claims.

Allowance as a % of Insurance Policies and Loan Guarantees Outstanding
(%)



Capitalization

The gross assets of the Corporation are $23.2 billion (1998 – $19.0 billion) which are supported by shareholder's equity and allowances of $4.6 billion (1998 – $4.2 billion). At this level of capitalization, 20% of assets do not require external debt financing (1998 – 22%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Shareholder's equity:					
Capital	**983**	983	983	983	851
Retained earnings	**815**	697	562	434	322
Sub-total	**1,798**	1,680	1,545	1,417	1,173
Allowances	**2,798**	2,516	1,984	1,683	1,457
Total capitalization	**$4,596**	$4,196	$3,529	$3,100	$2,630

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. The Corporation manages its exposure to market risk utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets weekly and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Audit Committee of the Board, and to the Board of Directors.

Asset/Liability Management

The following table provides a breakdown of EDC's asset portfolios:

($ in millions)	Total (CAD equiv.)	%	Canadian Dollars	U.S. Dollars	Other Currencies (CAD equiv.)
Floating rate portfolio	11,001	50	1,001	6,069	1,241
Fixed rate portfolio	7,597	35	230	4,905	288
Investments	3,289	15	947	1,565	84

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities accordingly but must balance the need to match its assets and liabilities with opportunities to obtain sub-LIBOR funding. In doing so, EDC may expose itself to interest rate and foreign exchange risk. These asset/liability gaps are measured against policy limits and reported to senior management on a monthly basis.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value and net interest income to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities and/or interest rate resets between assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and managed within operational guidelines and Board-approved policies. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income and economic value. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC is currently within its risk management guidelines and policies with respect to its exposure to interest rate and foreign exchange risk.

EDC continues to improve analytical techniques, information systems and reporting to enhance the evaluation and control of risk. The Treasury Risk Management Policies are reviewed annually with the Corporation's Board of Directors.

Derivatives

EDC utilizes a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures and options.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Treasury Risk Management Department formally reviews EDC derivative financial instrument transactions at time of inception, and on an ongoing basis, to provide an independent verification on the valuation of transaction structures, and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Treasury Risk Management Department to the Treasurer and the Senior Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Treasury Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low cost floating rate U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than invest directly in a three month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet current and future cash outflow requirements. Pursuant to its risk management policies, EDC must maintain enough liquidity to meet the following six months net cash outflow requirements without accessing the capital markets (i.e., bond issuance). This is ensured by measuring and reporting to senior management EDC's actual liquidity position against this minimum limit on a monthly basis.

EDC maintains liquidity through a variety of methods:

Access to Commercial Paper Markets: In the course of its normal activities, EDC's commercial paper programs provide the Corporation with the necessary liquidity to meet its cash requirements on a daily basis. During 1999, the average balance of short-term debt was $3,429 million (1998 – $2,979 million) with a turnover of 21 times (1998 – 26 times).

Cash and Marketable Securities: EDC holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. During 1999, the average balance of cash and marketable securities was $2,758 million (1998 – $1,908 million).

Standby Credit Facility: As a contingency, EDC also maintains a U.S. dollar $2 billion standby revolving credit facility to further ensure its liquidity. To date, it has not been necessary to use this facility.

Credit Ratings

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

EDC has the following credit ratings:

	Domestic		Foreign Currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa2	P-1
Standard & Poors	AAA	A-1+	AA+	A-1+
Japan Credit Rating Agency	AAA	–	AAA	–

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

The Year 2000 Issue

The Year 2000 issue arose because many existing computer systems recorded and identified years with two digits, rather than four. When the century rollover occurred, dates contained the two-digit year "00." Many computers or electronic equipment may have failed to recognize the change to the Year 2000. If not corrected, computer applications could have failed or produced erroneous results, potentially impacting business viability and profitability.

EDC's efforts with respect to the Year 2000 proved successful. The transition to the Year 2000 was uneventful due to the significant preparation which involved an inventory of technology, review and remediation of computer systems, verification of all technology, contingency planning, business partner readiness assessment and an understanding of the potential impact of Year 2000 financially on the organization. EDC also followed best practice guidelines as established by expert groups and initiatives by financial organizations.

Nothing to date has come to the attention of the Corporation that would identify external risk due to the possible non-compliance of EDC's customers, suppliers, business partners and counterparties, although the risk still exists and cannot be quanitified at this time. EDC will continue to monitor these external risks throughout 2000.

Financial Reporting Responsibility

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 19 to the Corporation's consolidated financial statements and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 1999 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 3, 2000

consolidated Balance sheet

as at December 31, 1999

($ in millions)	1999	1998
Assets		
Cash and Investments		
Cash and cash equivalents	778	81
Marketable securities (note 3)	2,452	1,318
Investments (note 4)	168	331
Accrued interest	21	13
	3,419	1,743
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	14,844	12,989
Accrued interest and fees	291	222
	15,135	13,211
Other		
Recoverable insurance claims (note 10)	77	44
Derivative related amounts	739	438
Other assets	53	44
	869	526
Total Assets	$19,423	$15,480
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	16,248	12,636
Accrued interest	697	465
	16,945	13,101
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	92	133
Deferred insurance premiums	24	19
Derivative related amounts	110	111
Allowance for claims on insurance and guarantees (note 10)	454	436
	680	699
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	983	983
Retained earnings	815	697
	1,798	1,680
Total Liabilities and Shareholder's Equity	$19,423	$15,480

See accompanying notes.

Approved by the Board of Directors

J. Pattillo
Director

A. Ian Gillespie
Director

consolidated statement of income and Retained Earnings

for the year ended December 31, 1999

($ in millions)	1999	1998
Interest income		
Loans	1,258	1,055
Marketable securities and investments	146	126
	1,404	1,181
Interest expense	796	642
Net Interest Income	608	539
Insurance Premiums and Guarantee Fees	133	110
Provision for Credit Losses (note 11)	523	433
Income after provision for credit losses	218	216
Administrative Expenses	100	81
Net Income	118	135
Retained Earnings		
Beginning of year	697	562
End of year	$815	$697

See accompanying notes.

consolidated statement of cash flows

for the year ended December 31, 1999

($ in millions)	**1999**	1998
Operating Activities		
Net income	**118**	135
Items not affecting cash and cash equivalents		
Provision for credit losses	**523**	433
Net increase in accrued interest and fees receivable	**(253)**	(114)
Net increase in accrued interest and fees payable	**84**	88
Other changes	**(147)**	(20)
Cash flows from operating activities	**325**	522
Investing Activities		
Loan disbursements	**(6,374)**	(5,822)
Loan repayments	**3,380**	2,806
(Increase)/decrease in marketable securities	**(1,208)**	221
Decrease in investments	**163**	77
Cash flows used in investing activities	**(4,039)**	(2,718)
Financing Activities		
Issue of long-term loans payable	**6,755**	3,455
Repayment of long-term loans payable	**(2,267)**	(2,931)
Increase/(decrease) in short-term loans payable	**(57)**	1,726
Cash flows from financing activities	**4,431**	2,250
Effect of exchange rate changes on cash and cash equivalents	**(20)**	3
Net increase in cash and cash equivalents	**697**	57
Cash and Cash Equivalents		
Beginning of year	**81**	24
End of year	**$778**	$81
Represented by		
Cash	**18**	81
Treasury bills	**760**	–
	$778	$81
Supplemental Information		
Cash paid for interest	**$708**	$572

See accompanying notes.

Notes to the consolidated financial statements

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969, by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was last amended effective June 10, 1993. The Corporation is an agent of Her Majesty in right of Canada and was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended in 1993 gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Act provides that a review of the provisions and operation of the Act must be undertaken at specified regular intervals. The first such review was completed in 1999. The Standing Senate Committee on Banking, Trade and Commerce is currently reviewing the report pertaining to this review. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed an amount equal to 10 times the authorized capital of the Corporation, or such a greater amount as may be specified in an appropriation Act. During 1999 the limit was increased from $15 billion to $17.5 billion by an appropriation Act. As at December 31, 1999, the contingent liabilities are $12.7 billion (1998 – $11.8 billion).

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 1999, is $25.2 billion (1998 – $23.2 billion), against which borrowings amounted to $16.0 billion (1998 – $12.6 billion).

2. Summary of Significant Accounting Policies

Consolidated Statement of Cash Flows

In 1999, EDC adopted the new recommendations of the CICA with respect to the presentation of cash flow information.

Under these new recommendations, cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and Treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities

Securities, which are being held to maturity, are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security carried at cost, the security would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in marketable securities and investment interest income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred loan revenue, comprising exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using discounting of estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for losses on loans.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for losses on loans. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio. This evidence can exist as early as the time of disbursement.

Recoverable Insurance Claims

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for losses on loans. The related provision is recorded through the provision for credit losses.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where netting agreements exist, principal and accrued interest on contracts hedging long-term debt is aggregrated by counterparty. Resulting receivable balances are recognized in other assets and resulting payable balances are recognized in other liabilities and deferred revenue. Principal and accrued interest on derivative financial instruments hedging marketable securities are included in marketable securities. Principal and accrued interest on derivative financial instruments hedging short-term payables are included in loans payable.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Temporary investments are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange obligations such as interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)				1999	1998
	Remaining Term to Maturity*				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Investment portfolio					
Fixed rate securities					
Canadian government **	147	297	72	516	431
Corporate	25	52	17	94	40
Financial institutions	11	51	–	62	80
Other sovereign	–	–	14	14	37
Total fixed rate securities	183	400	103	686	588
Swap contracts	(41)	(144)	(17)	(202)	(162)
Net fixed	142	256	86	484	426
*Yield to maturity %**	*5.61*	*6.38*	*5.98*	*5.93*	*6.06*
Floating rate securities					
Canadian government **	–	–	–	–	13
Corporate	228	–	–	228	107
Financial institutions	1,086	–	–	1,086	299
Other sovereign	–	–	–	–	11
Total floating rate securities	1,314	–	–	1,314	430
Swap contracts	32	136	15	183	155
Net floating	1,346	136	15	1,497	585
*Yield to reset %**				*5.55*	*5.04*
Total investment portfolio	1,488	392	101	1,981	1,011
Temporary investments					
Floating rate securities					
Canadian government**	12	–	–	12	–
Corporate	127	–	–	127	269
Financial institutions	332	–	–	332	38
Total temporary investments	471	–	–	471	307
Spot yield %				*5.18*	*5.08*
Value at purchase				*468*	*306*
Total Marketable Securities	$1,959	$392	$101	$2,452	$1,318

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*
** *Canadian government includes federal, provincial, municipal governments and Crown corporations.*

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $115 million (1998 – $110 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and a Crown corporation, the Royal Canadian Mint, totaling $53 million (1998 – $221 million). The Crown corporation is related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. The investment with the Crown corporation was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)				1999	1998
	Remaining Term to Maturity*				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Fixed rate investments	4	8	41	53	56
Floating rate investments	115	–	–	115	275
Total Investments	$119	$8	$41	$168	$331
*Yield %**	*5.13*	*6.33*	*6.46*	*6.33*	*6.23*

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	1999					1998				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	108	9.11	8	3.21	116	40	9.27	14	2.11	54
1999	–	–	–	–	–	827	8.74	1,719	2.58	2,546
2000	855	8.34	2,155	1.58	3,010	703	8.73	947	1.94	1,650
2001	926	8.56	1,683	2.33	2,609	802	8.85	1,030	1.89	1,832
2002	675	8.47	1,091	1.83	1,766	634	8.59	844	1.77	1,478
2003	582	8.23	910	1.55	1,492	519	8.35	765	1.48	1,284
2004	566	8.00	747	1.60	1,313	478	8.08	545	1.56	1,023
2005–2009	2,040	7.76	2,368	1.37	4,408	1,606	7.81	1,686	1.29	3,292
2010 and beyond	1,669	7.68	907	0.88	2,576	1,004	7.83	432	0.86	1,436
Performing	7,421	7.81	9,869	1.58	17,290	6,613	8.01	7,982	1.83	14,595
Impaired (Note 6)	176		1,132		1,308	155		1,774		1,929
Gross loans receivable	$7,597		$11,001		$18,598	$6,768		$9,756		$16,524
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					573					1,041
Performing loans *					609					214
Loans receivable					17,416					15,269
Less: Allowance for losses on loans (Note 7)					2,324					2,060
Deferred loan revenue					248					220
Net Loans Receivable					$14,844					$12,989

** Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 1999, the floating rate performing gross loans receivable are yielding 7.52% (1998 – 7.19%) with an average term to reset of 108 days (1998 – 106 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	1999					1998				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	**3,256**	**8.45**	**3,027**	**1.23**	**6,283**	3,279	8.57	2,487	1.33	5,766
Commercial	**4,165**	**7.45**	**6,842**	**1.75**	**11,007**	3,334	7.63	5,495	2.03	8,829
Total	**$7,421**	**7.81**	**$9,869**	**1.58**	**$17,290**	$6,613	8.01	$7,982	1.83	$14,595

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	1999	1998
Balance at beginning of year	**1,255**	1,082
Capitalized interest	**68**	155
Amortization	**(69)**	(49)
Cash receipts	**(2)**	0
Foreign exchange	**(70)**	67
Balance at end of year	**$1,182**	$1,255

6. Impaired Loans Receivable

The Corporation has $1,308 million impaired gross loans receivable (1998 – $1,929 million) of which $1,060 million is sovereign (1998 – $1,784 million) and $248 million is commercial (1998 – $145 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	1999	1998
Balance at beginning of year	**1,929**	1,785
Loans classified as impaired	**161**	40
Loans reinstated to performing	**(647)**	–
Capitalized interest	**39**	112
Principal repayments	**(15)**	(18)
Receipts from the Government of Canada for sovereign debt relief	**(59)**	(97)
Foreign exchange	**(100)**	107
Balance at end of year	**$1,308**	$1,929

The largest concentrations of gross loans receivable for impaired loans are listed in the following table:

($ in millions)	1999			1998			
	Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	**379**	**234**	**145**	Peru	673	491	182
Côte d'Ivoire	**235**	**169**	**66**	Cameroon	433	233	200
Russia	**117**	**46**	**71**	Côte d'Ivoire	259	162	97
Congo	**52**	**40**	**12**	Russia	120	47	73
Gabon	**50**	**25**	**25**	Congo	55	43	12
Other	**227**	**53**	**174**	Other	244	62	182
Sub-total	**1,060**	**567**	**493**		1,784	1,038	746
Commercial	**248**	**6**	**242**		145	3	142
Total Impaired	**$1,308**	**$573**	**$735**		$1,929	$1,041	$888
Less: Specific allowance			**402**				421
Net Impaired Loans Receivable			**$333**				$467

During 1999, payments of principal and interest from borrowers for impaired loans were $33 million (1998 – $62 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)			1999			1998
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
Specific allowance for impaired loans	191	211	402	296	125	421
General allowance	655	1,267	1,922	657	982	1,639
Total	$846	$1,478	$2,324	$953	$1,107	$2,060

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows, which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined below, represent $4,675 million or 27% of the Corporation's performing loans receivable.

($ in millions)		1999			1998
Country	Performing Gross Loans Receivable	% of Performing Loans	Country	Performing Gross Loans Receivable	% of Performing Loans
Indonesia	896	5	Indonesia	845	6
Peru	741	4	Brazil	707	5
Brazil	738	4	Mexico	625	4
Mexico	713	4	Algeria	523	4
Venezuela	609	4	Venezuela	495	3
Algeria	527	3	Argentina	290	2
Colombia	451	3	Turkey	286	2
Total	$4,675	27	Total	$3,771	26

In addition, the Corporation has a single counterparty loan receivable of $1,151 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)			1999			1998
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	421	1,639	2,060	488	1,140	1,628
Portfolio growth	(4)	290	286	–	276	276
Credit migration	–	90	90	–	108	108
Net increase/(decrease) in impairment	21	–	21	(71)	–	(71)
Foreign exchange	(36)	(97)	(133)	4	115	119
Balance at end of year	$402	$1,922	$2,324	$421	$1,639	$2,060

8. Loan Commitments

The Corporation has undisbursed commitments of $5,345 million (1998 – $5,813 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed commitments.

The projected disbursement of the loan commitments is as follows:

($ in millions)	1999		1998	
Year	Projected Disbursements	%	Projected Disbursements	%
1999	–	–	2,734	47
2000	2,798	52	1,033	18
2001	706	13	353	6
2002 and beyond	1,841	35	1,693	29
Total	$5,345	100	$5,813	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	1999				1998			
	Fixed $	Spot Yield %	Floating $	Spread %	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	1,891	8.35	215	2.72	2,158	8.47	502	2.54
Commercial	71	6.83	3,168	1.83	63	8.28	3,090	2.03
Total	$1,962	8.29	$3,383	1.88	$2,221	8.47	$3,592	2.10

9. Contingent Liabilities

As at December 31, the Corporation has insurance policies and guarantees outstanding of $12,721 million (1998 – $11,794 million) which mature as follows:

($ in millions)	1999	1998
Short-term program	7,147	6,850
Medium-term program		
1999	–	589
2000	1,058	872
2001	963	744
2002	299	242
2003	1,721	1,373
2004	283	91
2005–2009	795	531
2010 and beyond	455	502
Total	$12,721	$11,794

The major concentrations by location of ultimate risk are as follows:

($ in millions)	1999				1998		
	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	2,821	1,367	4,188	U.S.	2,538	1,377	3,915
Canada	1,036	1,102	2,138	Canada	1,024	674	1,698
Brazil	419	281	700	Brazil	353	301	654
China	217	174	391	China	226	153	379
U.K.	141	182	323	U.K.	155	224	379
Other	2,513	2,468	4,981	Other	2,554	2,215	4,769
Total	$7,147	$5,574	$12,721	Total	$6,850	$4,944	$11,794

Reinsurance of $520 million (1998 – $179 million) has been deducted from the insurance policies outstanding.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	1999	1998
Balance at beginning of year	44	28
Claims paid	134	72
Claims recovered	(17)	(19)
Re-evaluation of recoverable claims	(82)	(39)
Foreign exchange	(2)	2
Balance at end of year	$77	$44

Of the $134 million in claim payments made during 1999, 78% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)	1999				1998
	Claims Paid	Claims Recovered		Claims Paid	Claims Recovered
U.S.	34	7	U.S.	21	5
Russia	27	–	Italy	10	8
Hong Kong	18	–	Mexico	9	2
China	10	–	India	5	–
Brazil	6	1	Canada	4	1
Other	39	9	Other	23	3
Total	$134	$17	Total	$72	$19

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	1999	1998
Balance at beginning of year	436	336
Provision for claims on insurance	133	88
Provision for loan guarantees	(7)	32
Re-evaluation of recoverable claims	(82)	(39)
Foreign exchange	(26)	19
Balance at end of year	$454	$436

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	1999	1998
Provision for losses on loans	397	313
Provision for claims on insurance	133	88
Provision for loan guarantees	(7)	32
Provision for Credit Losses	$523	$433

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable are comprised as follows:

($ in millions)	1999	1998
Short-term payables	3,705	4,072
Long-term payables		
– due within current year	2,992	2,269
– over one year	9,531	6,256
Total long-term payables	12,523	8,525
Sub-total	16,228	12,597
Plus: unamortized discounts and premiums	5	13
deferrals	15	26
Total Loans Payable	$16,248	$12,636

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised of the following:

($ in millions)	1999	1998
Short-term	53	31
Long-term	644	434
Total Accrued Interest Payable	$697	$465

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	1999	1998
Equity index	788	621
Dual currency	984	1,600
Callable/extendible	1,446	654
Barrier	240	580
Other	180	424
Total	$3,638	$3,879

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Debt Instrument Maturities

The following table shows how EDC has used derivative financial instruments to manage interest rate exposure on debt instruments:

($ in millions)				1999		1998
Year of Maturity	Issues	Swap Contracts	Net	Yield* (%)	Net	Yield* (%)
Fixed Rate Issues						
1999	–	–	–	–	842	7.37
2000	2,267	(1,978)	289	8.63	306	8.63
2001	793	(360)	433	6.25	–	–
2002	1,940	(1,074)	866	6.40	153	7.75
2003	1,073	(203)	870	6.81	923	6.81
2004	1,590	(1,590)	–	–	–	–
2005 to 2009	2,084	(2,084)	–	–	–	–
2010 and beyond	744	(487)	257	8.55	272	8.55
Sub-total	10,491	(7,776)	2,715	7.49	2,496	7.71
Floating Rate Issues						
1999	–	–	–		5,474	
2000	4,431	1,920	6,351		1,416	
2001	808	361	1,169		792	
2002	–	1,077	1,077		575	
2003	159	207	366		219	
2004	24	1,580	1,604		90	
2005 to 2009	226	1,999	2,225		1,078	
2010 and beyond	89	430	519		394	
Sub-total	5,737	7,574	13,311	5.63	10,038	4.75
Total	$16,228	$(202)	$16,026		$12,534	

* *Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1998 – 9.8 million). No shares were issued in 1999 (1998 – nil).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)	1999								1998	
	Assets			Liabilities			Net Foreign Currency		Net Foreign Currency	
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Exposure	Rate	Exposure	Rate
U.S. Dollars	14,913	483	15,396	(8,561)	(6,852)	(15,413)	(17)	1.4433	3	1.5305
British Pounds	891	(11)	880	(760)	(118)	(878)	2	2.3314	30	2.5448
Euro	608	(15)	593	(1,125)	533	(592)	1	1.4525	N/A	N/A
Deutsche Marks**									31	0.9184
European Currency Units**									3	1.7959
Netherlands Guilder**									1	0.8155
Italian Lira**									(1)	0.0009
Australian Dollars	9	(9)	–	(95)	95	–	–	0.9482	–	0.9387
Swiss Francs	–	–	–	(24)	24	–	–	0.9064	–	1.1143
Hong Kong Dollars	–	–	–	(93)	93	–	–	0.1857	–	0.1976
Japanese Yen	38	(38)	–	(838)	838	–	–	0.0141	–	0.0136
Norwegian Krone	4	–	4	–	(4)	(4)	–	0.1801	–	0.2026
New Zealand Dollars	14	–	14	(189)	175	(14)	–	0.7547	–	0.8060
South African Rand	–	–	–	(39)	39	–	–	0.2347	–	0.2600

* *"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.*
** *As at January 1, 1999, these exposures were included as part of the Euro exposure.*

The Corporation incurred a foreign exchange loss of $11.9 million in 1999 (1998 – gain of $12.9 million). This amount is included in interest expense. Throughout the year, EDC carried net asset exposures primarily in U.S. dollars, British pounds and Euros. In 1999, the portion of the total foreign exchange loss attributable to U.S. dollars was $4 million (1998 – gain of $9.9 million) and to British pounds was $2.5 million (1998 – gain of $1.9 million) and to Euros was $5 million (1998 – n/a).

16. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not utilize derivatives for speculative purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts, which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1998 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31 are listed below:

($ in millions)					1999	1998
	Remaining Term to Maturity					
	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Total
Currency swaps	2,240	1,739	1,159	2,492	7,630	4,630
Interest rate swaps	688	1,646	635	155	3,124	1,902
Foreign exchange contracts	3,153	–	–	–	3,153	1,662
Total derivative financial instruments	$6,081	$3,385	$1,794	$2,647	$13,907	$8,194
Fair Value of Derivative Financial Instruments						
Positive	364	157	69	116	706	589
Negative	(90)	(25)	(63)	(76)	(254)	(187)

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. *Fair Value of Financial Instruments*

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined on the following page do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	1999		1998	
Balance Sheet Financial Instruments	**Book Value**	**Fair Value**	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	**495**	**495**	436	444
Floating rate securities	**2,756**	**2,756**	975	975
Investments	**168**	**155**	332	342
Loans receivable:				
Performing fixed rate	**6,912**	**7,362**	6,432	6,862
Performing floating rate	**8,138**	**9,475**	6,532	7,678
Impaired	**333**	**333**	467	467
Total	**$18,802**	**$20,576**	$15,174	$16,768
Accounts payable	**92**	**92**	133	133
Loans payable:				
Fixed rate	**11,188**	**11,274**	8,650	9,033
Floating rate	**5,737**	**5,737**	4,412	4,412
Total	**$17,017**	**$17,103**	$13,195	$13,578

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of items such as deferrals which do not have a fair value.

($ in millions)	1999	1998
Off-Balance Sheet Financial Instruments	**Fair Value**	Fair Value
Currency swap contracts	**351**	272
Interest rate swap contracts	**21**	124
Foreign exchange contracts	**80**	6
Undisbursed loan commitments:		
Fixed rate	**67**	175
Floating rate	**(68)**	(113)

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at December 31. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at December 31 as issued by Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada pays the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 1999, the Corporation received from the Government of Canada $59 million (1998 – $97 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $630 million and undisbursed commitments of $867 million, for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

The Corporation is in the process of withdrawing from the *Public Service Superannuation Act,* and establishing its own defined benefit pension plan, registered under the *Pension Benefits Standards Act.* It is expected that the withdrawal process and the establishment of a separate plan will be substantially completed during 2000 and will not materially impact the financial position of the Corporation.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account." The Board of Directors is only responsible for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,749 million at December 31, 1999 (1998 – $3,038 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,133 million (1998 – $5,650 million). Reinsurance of $59 million has been deducted from the insurance policies in force.

The Corporation retained $25 million (1998 – $22 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect EDC, including those related to customers, suppliers, or other third parties, have been fully resolved.

21. Reclassification of Comparative Figures

Certain 1998 comparative figures have been reclassified to conform to the presentation adopted in 1999.

Five-Year Review

Balance Sheets

as at December 31

($ in millions)	1999	1998	1997	1996	1995
Gross loans receivable	**18,598**	16,524	12,373	10,504	9,910
Less: non-accrued capitalized interest	**1,182**	1,255	1,082	998	927
Less: allowance for losses on loans	**2,324**	2,060	1,628	1,423	1,233
Less: deferred loan revenue	**248**	220	207	160	155
Net loans receivable	**14,844**	12,989	9,456	7,923	7,595
Cash and investments	**3,398**	1,730	1,927	1,444	1,459
Accrued interest and other assets*	**1,181**	761	262	214	214
Total assets	**$19,423**	$15,480	$11,645	$9,581	$9,268
Loans payable*	**16,248**	12,636	9,556	7,735	7,668
Accrued interest and other liabilities*	**923**	728	208	189	223
Allowance for claims on insurance and guarantees	**454**	436	336	240	204
Total liabilities	**17,625**	13,800	10,100	8,164	8,095
Share capital	**983**	983	983	983	851
Retained earnings	**815**	697	562	434	322
Shareholder's equity	**1,798**	1,680	1,545	1,417	1,173
Total liabilities and shareholder's equity	**$19,423**	$15,480	$11,645	$9,581	$9,268

* *Figures prior to 1998 were not restated to reflect certain reclassifications made in 1998 and 1999 as the information was not reasonably determinable.*

Income Statements

for the year ended December 31

($ in millions)	1999	1998	1997	1996	1995
Interest income – loans	**1,258**	1,055	782	688	813
Interest income – marketable securities and investments	**146**	126	92	99	87
Less: interest expense	**796**	642	481	437	485
Net interest income	**608**	539	393	350	415
Insurance premiums and guarantee fees	**133**	110	99	92	76
Provision for credit losses	**523**	433	295	270	390
Income after provision for credit losses	**218**	216	197	172	101
Administrative expenses	**100**	81	69	60	57
Net income	**$118**	$135	$128	$112	$44

Corporate Account

Financial Arrangements Facilitated

($ in millions)	1999	1998	1997	1996	1995
Export Financing					
Direct financing	**6,060**	6,639	5,454	3,678	2,142
Export Insurance					
Short-term insurance	**27,625**	23,990	20,332	15,756	13,044
Medium-term insurance	**5,914**	3,933	2,629	2,464	1,954
Guarantees	**456**	189	221	132	97
Sub-total	**33,995**	28,112	23,182	18,352	15,095
Total	**$40,055**	$34,751	$28,636	$22,030	$17,237

Financial and Other Data

	1999	1998	1997	1996	1995
Export Financing					
Number of transactions financed	**372**	351	242	172	140
Number of loans receivable	**990**	894	810	801	759
Value of total obligations on loans receivable	**18,598**	16,524	12,469	10,517	9,920
Number of undisbursed loans	**283**	255	216	216	201
Value of undisbursed loans	**5,345**	5,813	6,482	2,863	1,854
Value of disbursements to exporters*	**6,374**	5,822	3,295	2,437	2,187
Value of liability on loan guarantees	**1,643**	1,723	416	347	257
Undisbursed amounts on loan guarantees	**123**	150	145	85	88
Number of current lines of credit and protocols	**55**	52	44	50	46
Amounts available for allocation	**1,659**	1,320	1,356	1,570	1,719
Loan amounts rescheduled	**720**	237	158	464	442
Loan amounts written off	**–**	–	18	–	–
Export Insurance					
Number of policies issued	**3,879**	3,345	3,021	2,591	2,040
Number of insurance policies and guarantees outstanding	**7,190**	6,272	5,352	4,404	3,446
Value of liability on insurance and guarantees	**10,955**	9,921	8,163	7,000	5,869
Value of claims paid	**134**	72	43	60	28
Value of claims recovered/rescheduled	**17**	19	16	11	8
Value of claims under consideration at end of year	**38**	62	15	14	17
Average employee strength during year	**778**	698	650	602	557

* *Figures prior to 1999 are restated to conform with current presentation.*

Canada Account

Financial Arrangements Facilitated

($ in millions)	1999	1998	1997	1996	1995
Export Financing					
Direct financing	**67**	9	1,584	131	430
Export Insurance					
Short-term insurance	**–**	–	–	6	4
Medium-term insurance	**247**	497	283	299	281
Guarantees	**–**	12	34	–	–
Sub-total	**247**	509	317	305	285
Total	**$314**	$518	$1,901	$436	$715

Financial and Other Data

	1999	1998	1997	1996	1995
Export Financing					
Number of transactions financed	**12**	5	7	29	26
Number of loans receivable	**304**	301	297	291	258
Value of total obligations on loans receivable	**2,599**	2,904	2,799	2,753	2,677
Number of undisbursed loans	**57**	69	81	96	88
Value of undisbursed loans	**183**	194	309	373	598
Value of disbursements to exporters*	**66**	100	112	171	437
Number of current lines of credit and protocols	**2**	2	1	1	3
Amounts available for allocation	**73**	87	20	20	93
Loan amounts rescheduled	**45**	45	136	9	17
Export Insurance					
Number of policies issued	**4**	12	12	7	10
Number of insurance policies and guarantees outstanding	**20**	25	23	22	24
Value of liability on insurance and guarantees	**199**	299	241	456	486
Value of claims paid	**8**	4	6	–	23
Value of claims recovered	**–**	7	–	4	6

* *Figures prior to 1999 are restated to conform with current presentation.*

Members of the Board of Directors

(as at December 31, 1999)

Mr. W.R.C. Blundell
Corporate Director
Toronto, Ontario

Ms. Dorothy E. Byrne, Q.C.
Barrister & Solicitor
West Vancouver, British Columbia

Mr. Rayburn D. Doucett
President
Crosswaters Trade Brokers Limited
Belledune, New Brunswick

Mr. Robert A. Fung
Senior Partner
Capital West Partners
Toronto, Ontario

Mr. A. Ian Gillespie
President and Chief Executive Officer
Export Development Corporation
Ottawa, Ontario

Mr. Robert J. Holt
President
Applied Common Sense Solutions Inc.
Salt Spring Island, British Columbia

Ms. Joy F. Kane
Assistant Deputy Minister
International Trade and Finance Branch
Department of Finance
Ottawa, Ontario

Mr. Patrick J. Lavelle
Chairman of the Board
Export Development Corporation
Toronto, Ontario

Mr. Pierre MacDonald
President and Chief Executive Officer
MacD Consult Inc.
Verdun, Quebec

Mr. James A. Pattillo
President
Pattillo Capital Corporation
Calgary, Alberta

Mr. Raymond C. Setlakwe, Q.C.
President and Chief Executive Officer
A. Setlakwe Ltée
Thetford Mines, Quebec

Ms. Grace S. White
President and Chief Executive Officer
CanJam Trading Ltd.
Dartmouth, Nova Scotia

Mr. Dennis Wood
Chairman, President and Chief Executive Officer
C-MAC Industries Inc.
Montreal, Quebec

Mr. Robert G. Wright
Deputy Minister for International Trade
Ottawa, Ontario

1 Vacancy

EDC's corporate governance practices

EDC's Board of Directors is committed to ensuring its corporate governance practices are open and effective, and the Board is fully accountable.

In 1999, recognizing the need to ensure that EDC's governance practices were keeping pace with increasing demands for performance and accountability, and evolving beyond mere compliance with Guidelines as set out by the Treasury Board in its publication, *Corporate Governance in Crown Corporations and Other Public Enterprises,* the Corporate Governance Committee decided to undertake a comprehensive review of past and current practices.

In March 1999, the Committee oversaw an in-depth analysis of directors' responses to a 1999 corporate governance survey: comparing responses to the previous year, and noting areas of perceived progress; codifying responses provided each year in respect of the Treasury Board Guidelines, and indicating suggestions made and follow-up action undertaken; and identifying areas of significant gaps, and determining a course of action to address each one.

In doing so, it became apparent that EDC's Board of Directors was already effectively assuming the stewardship of the Corporation – actively involved in the corporate and strategic planning processes, and diligently ensuring that the principal risks of the Corporation are identified, and appropriate information systems and management practices are in place to manage these risks – and it was ably assisted by an effective network of committees of the Board, each assuming responsibilities for specific aspects of EDC's operations and business. In fulfilling its responsibilities, during 1999 the Board and its seven committees held an aggregate of 48 meetings.

This comprehensive review also provided insights into areas of responsibility that could be improved upon, and as a result significant initiatives were undertaken and completed in 1999 that further enhanced EDC's corporate governance practices, bringing them into full compliance with almost all of the Guidelines, and beyond compliance with some, as indicated below:

Board Stewardship

With respect to its key responsibility, that of the stewardship of the Corporation, major initiatives were undertaken in 1999.

Strategic Direction: Throughout the year, the Board carefully monitored EDC's legislative review process, considering and responding to recommendations arising from the *Report on the Review of the Export Development Act.* In August, it held a full-day strategic planning session, validating the continuing relevancy of EDC's mandate, strategic direction and commercial principles, as confirmed by the Report. In October, it approved a progressive

EDC's Board of Directors is committed to ensuring its corporate governance practices are open and effective, and the Board is fully accountable.

Corporate Plan 2000–2004, charting a greater leadership role for EDC in the Canadian economy, detailing strategies to enable EDC to achieve its ambitious corporate objective to "create and deliver capacity, capability and opportunities in support of Canadian companies pursuing international business," and determining measures to evaluate corporate performance.

Identifying Risks: In terms of ensuring the principal risks of the Corporation's business have been identified, and appropriate systems are in place to monitor and manage these risks, two major initiatives were undertaken and completed. In 1999, in addition to assuming its regular oversight responsibilities, plus focussing on the state of EDC's readiness for Year 2000, the Audit Committee oversaw a Special Examination of EDC by the Auditor General of Canada that examined the financial and management control and information systems and management practices maintained by the Corporation, culminating in August with EDC receiving from the Auditor General an unqualified Special Examination opinion that "there is reasonable assurance that there are no significant deficiencies in the systems and practices examined."

Then in December, following intensive work throughout the year on the part of the newly created Risk Management Committee and EDC management, with the assistance of expert outside consultants, the Board approved a new *Credit Risk Policy Manual* based on "best practices" in both private- and public-sector financial institutions. This concluded the first phase of EDC's adoption of enterprise-wide risk management policies, the Special Examination Report stating that:

> "The introduction of the Risk Management Committee of the Board in May 1998 lends itself to effective governance of the risk management process and moves the Corporation closer to best practices in this area. The intended change in focus of Board involvement from a transactional review process to a higher level, enterprise-wide risk management will further improve the oversight and governance at the most senior level of the Corporation."

Succession Planning: Recognizing the need to ensure skilled management will be available for the ongoing and longer-term fulfillment of the Corporation's mandate, the Human Resources Committee oversaw the development and implementation of a leadership development program for EDC managers, the identification of critical management positions in the Corporation, and the preliminary assessment of EDC's current talent against future requirements. It also noted several key managerial positions filled during the year.

Board Requirements: In its continuing efforts to ensure information systems and management practices meet Board needs, and generate confidence in the integrity of the information produced, the Audit Committee actively oversaw EDC's financial reporting, information systems and internal controls, including the development of new systems critical to operations of EDC, with the Board reviewing corporate performance and financial results on a quarterly basis. Accordingly, the 1999 survey indicated that directors felt that appropriate internal controls and management information systems were in place.

Public Policy Objectives: With the legislative review taking place, and the *Report on the Review of the Export Development Act* being issued, 1999 was a pivotal year for the Board to focus on ensuring that the Corporation was striking the right balance between its public-policy mandate, and its objective of operating on sound commercial principles. While the Board had set a very aggressive business plan for EDC, it had also confirmed its leadership role in setting high standards of corporate responsibility, particularly with respect to the environment. In March, the Board approved an *Environmental Review Framework,* formalizing and strengthening EDC's existing environmental review practices for projects it supports, and clearly articulating its guidelines and philosophy in this field, which the Board encouraged EDC to promote internationally as a model for other export credit agencies.

Communications: Acknowledging the importance of enhancing communications with EDC's various stakeholders, the Business Development Committee oversaw the creation of a new identity for the Corporation, in anticipation of a proposed amendment to EDC's enabling legislation to change its name; as well as diverse collateral materials targeting Canadian exporters and Members of Parliament. It also encouraged and supported the creation of an Education and Youth Employment Strategy to promote international business knowledge and trade-related career opportunities to students across Canada.

Working with Management

Recognizing the need for the Board to work closely with management, while maintaining its independence and, enhanced by a clear allocation of responsibilities between the two groups, several initiatives were undertaken. In terms of Board independence: in-camera sessions were held at each meeting of the Board and some meetings of the committees; three of the seven committees were comprised entirely of outside, independent directors; a Pension Committee was established; and mandates for the Audit and Human Resources Committees were revised to include additional responsibilities. In terms of clarifying responsibilities: the new *Credit Risk Policy Manual* clearly articulated delegations of authority to management, as well as comprehensive reporting procedures to the Board; and the review and approval of the President's 1999 objectives further clarified such responsibilities, and provided a base against which to measure his performance.

Functioning of the Board

Acknowledging the critical need to assess Board effectiveness and undertake actions to enhance its corporate governance practices, several initiatives were undertaken, including: the aforementioned 1999 corporate governance survey and resulting action plan; the creation and approval of a skills profile for EDC directors, outlining qualities and experiences to help identify individuals with the greatest potential to contribute value to the Corporation's overall performance; special information sessions on credit risk management practices and corporate governance practices; the update and revision of comprehensive documentation sent to all new members of the Board upon their appointment; and signed statements of compliance with EDC's *Code of Conduct,* and updated declarations of interests by all members of the Board.

While strident steps have been taken by EDC's Board of Directors in its continuing efforts to evolve its corporate governance practices beyond mere compliance with the Treasury Board Guidelines, there is more that can be done. In taking the next leap, in December 1999, the Corporate Governance Committee decided to engage the services of an outside, independent consultant to conduct the year 2000 survey, determining that it will involve individualized interviews with directors, codifying progress made to date with respect to the Treasury Board Guidelines, benchmarking EDC's practices against peer organizations, and establishing a course of action to address any significant gaps. Directors are also being requested to provide self-assessments of their skills and experience, in order to create a Board inventory for use in identifying gaps to be filled when vacancies on the Board arise.

EDC's Board of Directors believes that it is only through this process of critical review and self-assessment that its corporate governance practices will become "best in class," and the Board will remain effective and fully accountable.

Committees of the Board of Directors

The Audit Committee assists the Board in fulfilling its responsibilities in relation to: financial reporting and performance measurement; internal control systems; the safeguarding of assets of the Corporation and the management of its resources; corporate financing and treasury management; internal and external audits; EDC's *Code of Business Ethics* and *Code of Conduct;* and its *Environmental Review Framework.* Areas of particular focus in 1999 included the Special Examination of EDC by the Auditor General, Year 2000 readiness, and the establishment of Guidelines on EDC's Capital and Administrative Expenditures and Budgets. In 1999, the Committee held four meetings.

Members: J.A. Pattillo (Chair), W.R.C. Blundell, R.A. Fung, R.J. Holt and G.S. White.

The Business Development Committee assists the Board by providing policy direction to enhance EDC's ability to meet the evolving needs of the market, taking into account factors related to industrial sector and/or regional economy. Areas of particular focus in 1999 included: sectoral marketing plans; regional representation; a new corporate identity; development of an Education and Youth Employment Strategy; work towards the development of an E–Commerce Strategy; and consideration of recommendations arising from the *Report on the Review of the Export Development Act.* In 1999, the Committee held six meetings.

Members: R.D. Doucett (Chair), D.E. Byrne, R.A. Fung, P. MacDonald and G.S. White.

The Corporate Governance Committee is responsible for, and makes recommendations to the Board on, matters relating to EDC's corporate governance regime, including the development and implementation of methods to ensure effective Board performance; and the determination of the structure, responsibility and composition of the various committees of the Board. Areas of particular focus in 1999 included a directors' survey, a review of EDC's corporate governance practices vis-à-vis the Treasury Board Guidelines, creation of a skills profile for EDC directors, terms of reference for the newly established Pension Committee, and revised terms of reference for the Audit and the Human Resources Committees. In 1999, the Committee held six meetings.

Members: P.J. Lavelle (Chair), D.E. Byrne, R.D. Doucett, J.A. Pattillo and R.C. Setlakwe.

The Executive Committee has the authority to exercise all the powers of the Board with the exception of: declaring dividends; approving any corporate plan, budget, financial statement or report required by any statute or under EDC's By-Law; and making, amending or repealing EDC's By-Law. This Committee is intended to meet to handle only those urgent matters which may arise between meetings of the Board. In 1999, the Committee held eight meetings.

Members: P.J. Lavelle (Chair), W.R.C. Blundell, A.I. Gillespie, J.A. Pattillo and R.G. Wright.

The Human Resources Committee assists the Board by: reviewing and making recommendations to the Board on EDC's Human Resources strategic plan, succession plans for executive officers, and compensation policy; approving, on the recommendation of the President, the annual budget for both base pay and variable pay, and the annual cash compensation paid to senior executives; and working with the Pension Committee in making recommendations to the Board regarding the design of a proposed pension plan for EDC employees, and any changes to pension benefits that may be made after the establishment of the plan. Areas of particular focus in 1999 included: a review of the President's performance against objectives; compensation for senior executives; leadership training; work towards the establishment of an EDC pension plan; and approval of EDC's compensation plan for 2000. In 1999, the Committee held five regular meetings, and one joint meeting with the Pension Committee.

Members: W.R.C. Blundell (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle, P. MacDonald and R.G. Wright.

The Pension Committee assists the Board with respect to the establishment of a proposed pension plan for EDC employees, and thereafter will have ongoing responsibilities with regard to the plan including ensuring: the plan is administered and funded in accordance with applicable legislation and the documents filed with appropriate authorities; all activities of the plan are monitored on an ongoing basis; and any changes to the design of, and benefits under, the plan are made in accordance with the established terms of reference of the Committee. As the Committee was established in October 1999, areas of particular focus have included the development of its terms of reference, and together with the Human Resources Committee, finalizing the initial design for the pension plan. In 1999, the Committee held one regular meeting and one joint meeting with the Human Resources Committee.

Members: D.E. Byrne (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle and R.C. Setlakwe.

The Risk Management Committee assists the Board in fulfilling its responsibilities with respect to the management of direct and contingent credit exposures undertaken by the Corporation in the conduct of its business activities, including establishing and updating, as required, an effective and flexible regime governing the authorizations required by the Corporation to undertake such activities. In 1999, the Committee held eight meetings, plus three information sessions for other members of the Board, culminating in the approval of a new *Credit Risk Policy Manual* at the December 1999 meeting of the Board.

Members: P. MacDonald (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle and J.A. Pattillo.

All committees are required to report to the Board of Directors on their activities on a regular and timely basis.

The remuneration of directors falls under the authority of the Governor General in Council. The Chairman of the Board is paid an annual fee of $6,500 and a per diem of $375, and the other private-sector directors are paid an annual fee of $4,500 and a per diem of $375. In addition, private-sector directors, other than the Chairman of the Board, receive annual fees of $1,000 when they hold office as Vice-Chairman of the Board or Chair of a committee of the Board. Public-service directors are not paid for their services as directors.

The total aggregate remuneration paid in 1999 to EDC's 11 private-sector directors was $212,500. They served, on average, on three committees of the Board, and attended a total of 48 Board and committee meetings.

EDC's code of Business Ethics

Commitment to legal and ethical conduct EDC will conduct its business and affairs in accordance with the letter and spirit of all applicable laws in the countries in which it does business. If any EDC employee or representative is ever uncertain as to the interpretation or application of a particular law, he or she must seek advice from Legal Services before taking action. Compliance with the law may, however, fall short of the standard of ethical conduct expected by EDC.

Accordingly, it is EDC's policy that each of its directors, employees and representatives conduct EDC's business with honesty, integrity and fairness. It is also corporate policy that communication and relationships with stakeholders be truthful and transparent in a way that will withstand the highest degree of public scrutiny. Working relationships will be based on candor and openness, treating each other fairly and with respect, while acting with integrity, and weighing responsibilities to all stakeholders.

The environment In considering transactions, EDC examines environmental risk along with any other risk. EDC has developed its own *Environmental Review Framework* in consultation with Canadian exporters, environmental organizations and other stakeholders. The framework supports EDC's desire to conserve and enhance environmental quality and to advocate concern for the environmental impact of projects it supports in foreign jurisdictions. EDC will encourage best practices among those with whom it does business, with the aim of raising international environmental standards. EDC will strive for high standards of environmental conservation, while ensuring this does not unduly hinder EDC's ability to support Canadian exporters competing on a global scale.

Prohibitions against bribery and corruption Basic criminal statutes of virtually all countries prohibit extortion and bribery. Under no circumstances will EDC, directly or indirectly, knowingly offer or give a bribe. Further, EDC will not support a transaction that involves the offer or giving of a bribe, and will exercise reasonable diligence and care not to unknowingly support such a transaction.

Human rights EDC values human rights and promotes the protection of internationally recognized human rights, consistent with the policies of the Government of Canada. EDC recognizes the sovereignty of other national governments with respect to human rights and conducts business with them where doing so is consistent with the policies of the Government of Canada.

EDC employees, representatives and other stakeholders are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. EDC is therefore committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds. These prohibited grounds include: age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, pregnancy, sexual orientation and disability.

Avoiding conflicts of interest Employees and representatives of EDC have a duty to act in the best interests of EDC at all times. A conflict of interest arises when an employee must choose between EDC's best interests and his/her own. The judgment of EDC employees and representatives must be, and must be seen to be, independent of any personal or financial interests that arise from business dealings, social ties, or other personal considerations.

EDC has adopted a *Code of Conduct* that requires employees and representatives of EDC to adhere to the highest standards of conduct with respect to conflicts of interest. Compliance with these standards is achieved through avoidance, disclosure, discontinuance or divestment.

Maintaining confidentiality of information EDC will respect the privacy rights of its stakeholders, including their right to security of information. EDC will preserve confidential information in its possession, and use such information only for corporate purposes.

Some employees have access to sensitive or confidential information that, if released, could significantly harm EDC, its employees or other stakeholders. Therefore, employees and other representatives of EDC must use extreme care when handling such information. As a general rule, such information shall not be provided to EDC employees or representatives other than on a need-to-know basis or to anyone outside EDC who is not authorized or legally entitled to receive it.

EDC's *Code of Conduct* provides examples of confidential information and contains stringent rules regarding the disclosure, use and communication of such information.

Glossary of Financial Terms

Basis Point – One-one hundredth of a percentage point.

Contingent Liability – Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Credit Risk – Credit risk is the possibility that a loss may be incurred if a counterparty fails to meet its financial commitments.

Efficiency Ratio – Administrative expenses expressed as a percentage of operating income.

Financial Sustainability Ratio – Adjusted operating income (operating income net of administrative expenses and debt relief) as a percentage of the year's average capital and allowances.

Foreign Exchange Risk – Foreign exchange risk is the possibility that a loss may result from exchange rate movements.

Gross Loans Receivable – Principal amounts outstanding, including any non-accrued capitalized interest, under existing loan agreements.

Hedge – A risk management practice used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Impaired Loan – Loans that no longer have reasonable assurance of collection of interest and principal.

Interest Rate Risk – Interest rate risk is the potential impact on the Corporation due to changes in interest rates.

LIBOR - London Inter-Bank Offered Rate – The interest rate at which banks in London are prepared to lend funds to first class banks.

Liquidity Risk – Liquidity risk is the chance that funds will not be available to meet the Corporation's obligations.

Market Risk – Market risk is the likelihood of a loss to the Corporation as a result of possible movements in interest and foreign exchange risk.

Net Interest Income – The difference between the interest earned on assets and interest expense on borrowings.

Net Margin – Net interest income expressed as a percentage of average assets employed.

Net Operating Income – Operating income net of administrative expenses.

Off-Balance Sheet Financial Instrument – An asset or liability that is not recorded on the balance sheet, but has the potential to impact cash flows in the future if a contingent event occurs.

Operating Income – Net income excluding the provision for credit losses and administrative expenses.

Operational Risk – Operational risk is the potential loss that may result from human error, internal control weaknesses and systems deficiencies.

Return on Equity – Net income expressed as a percentage of shareholder's equity.

Undisbursed Loan Commitments – A contractual amount under an existing loan agreement that has yet to be advanced to the borrower.

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Canada

Striking the Right Balance

Every year for the last 56 years, Canadian businesses have used EDC trade finance solutions to make their export dreams happen and to manage the risks of the global marketplace

The year 2000 was no exception

From our growing customer base – which consists mainly of small businesses – to an expanding youth and education strategy, we believe we have struck the right balance in our year 2000 operations

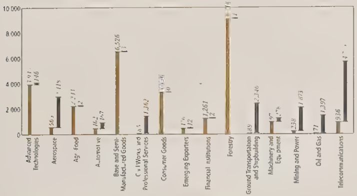
For EDC, maintaining that balance means that we've succeeded in doing the right thing for customers, for stakeholders and for Canada

$45 4 billion*	exports and international investments, using EDC solutions
5,679	total number of customers
89%	small- and medium-sized businesses
$2 billion	total shareholder's equity
$194 million	net income
$21 billion	total assets
$0	Parliamentary appropriation
$1 million	directed towards Education and Youth Employment Strategy

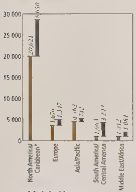
* *Includes $4.7 billion in domestic volume, of which $525 million is underwritten on London Guarantee's books*

2000 Corporate Account Highlights

BUSINESS VOLUME BY INDUSTRY SECTOR
($ in millions)

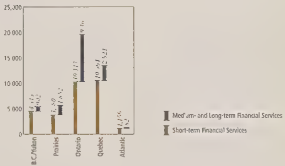


BUSINESS VOLUME BY GEOGRAPHIC MARKET
($ in millions)



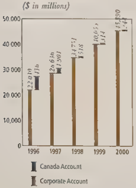
* *Includes Mexico*

BUSINESS VOLUME BY CANADIAN REGION
($ in millions)

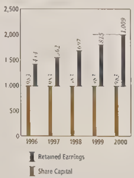


Five-Year Review

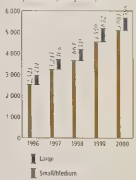
BUSINESS VOLUME
($ in millions)



SHAREHOLDER'S EQUITY
($ in millions)



CUSTOMERS SERVED
(Number of companies)



Milestones 2000

- EDC cut in half the start-up fee for first-time and smaller Canadian exporters who buy insurance policies to protect their export sales. (February)
- EDC played an instrumental role at OECD meetings in advancing the complex goal of incorporating environmental risk assessment into officially supported export credits. EDC was a sponsor of GLOBE 2000. (March)
- EDC partnered with Scotiabank to launch a new capital equipment, letter of credit based financing facility for smaller export transactions in Latin America and the Caribbean through subsidiaries/affiliates of Scotiabank in several Latin American countries.
- EDC's strategic alliance with London Guarantee gives Canadian exporters one-stop access to accounts receivable insurance on both export and domestic sales. (March)
- EDC opened a new office in Newfoundland and posted representatives in Brazil and Mexico.
- EDC launched a new employee pension plan. (April)
- EDC supported the Junior Team Canada Program, providing young Canadians with the skills and knowledge to prepare them for careers in international business. (May)
- EDC was named AIESEC Canada Partner of the Year at the Canada National Leadership Development Conference. (May)
- National public consultations were held with stakeholders toward the development of a disclosure framework for EDC. (May)
- EDC launched a $1-million International Studies Scholarship program (May). The first 18 recipients were announced in September.

Take Your Kids to Work Day at EDC

- EDC won first place in its category (government company with 100–1,000 employees) in the Commuter Challenge. Seventy per cent of employees used environmentally responsible modes of transportation to get to work. (June)
- EDC's team participated in the Labatt's 24-hour relay, raising $6,431.50 in pledges for local charities. This total was the third highest among the 85 teams that participated. (August)
- EDC introduced an Enterprise Risk Management (ERM) framework to more fully identify and understand the many risks to which EDC is exposed and to ensure that systems and processes are in place to mitigate and manage them. (September)
- A new program was developed jointly by Montcap Financial Corporation and EDC, which would allow Canadian exporters to easily convert their foreign accounts receivable into cash. Export Ease Plus was launched in October.
- EDC signed an agreement with COFACE establishing a framework to support and promote export transactions involving both French and Canadian companies, which would provide them with better and faster service. (November)
- EDC's United Way campaign raised over $100,000. (November)
- EDC's Parenting Committee organized Take Your Kids to Work Day. EDC hosted 17 energetic Grade 9 students. (November)

Contents

Message to the Shareholder

Investing in Canada's Future: Striking the Right Balance

A. Ian Gillespie
President and Chief Executive Officer

I am pleased to report on another year of exceptional accomplishments and actions positioning EDC strongly for the future. In 2000, EDC forged important new alliances and invested in its people, processes and technology, enabling Canadian businesses of all sizes to compete more effectively in an increasingly complex and changing world.

EDC's results underscore its unique role as a trade finance institution – executing its public policy role with a focus on customer service and commercial discipline. Over the past few years, EDC has built its equity base and financial capacity to ensure that it can support a rapidly increasing level of Canadian trade.

From the shareholder's investment of $1 billion, EDC has facilitated, in total, more than $300 billion in exports and foreign investments. As a result of our record net income in 2000, retained earnings now surpass paid-in share capital – a noteworthy milestone. Our loan and insurance portfolios are well diversified and provisioned to reflect the higher-risk nature of the marketplace in which our customers do business and in anticipation of a more difficult credit environment in 2001.

The $45.4 billion business volume that EDC facilitated last year reflects the growing Canadian economy, increased understanding of the global trade imperative, and greater recognition of the competitive advantages of EDC's services. Financing and insurance volumes in higher-risk markets accounted for 23 per cent of this amount. EDC also served 5,679 customers in 2000, a new record, and, according to its annual satisfaction survey, EDC continues to achieve high marks from its customers.

EDC's administrative expense as a percentage of operating income was an extremely low 13.6 per cent. With the investments we are making in people and technology, this efficiency ratio will increase to allow us to support a growing client base; however, this ratio will remain highly favourable relative to the overall financial services industry.

Canada's trade environment

The past decade has witnessed an unprecedented global integration of trade, investment, technology and enterprise. Within the trade portfolio of Minister Pettigrew, trade finance provides critical support to Canadian exporters pursuing opportunities opened through Canada's international trade policy and

trade promotion infrastructure. Driven by such forces as trade and investment liberalization, rapid technological advances, and wide-ranging privatization and deregulation, global economic activity is increasingly characterized by rising levels of cross-border investment and trade.

EDC helps create capacity in the Canadian financial system to meet the increased trade and investment needs of Canadian business. Despite the worldwide proliferation of private capital sources, Canadian firms' ability to access capital for international sales and investments has been limited. Many Canadian companies simply lack the financial strength to mobilize debt and investment financing to the same degree as their more highly capitalized rivals.

Canada also has a relatively underdeveloped credit insurance market – a product of its small market and the long-standing lack of appreciation by Canadian business for credit insurance. The result is that Canadian companies have faced constraints in responding to foreign business opportunities. EDC delivers the risk management services geared to the trade and investment needs of Canadian businesses. In short, our business *is* the business of managing risk.

In 2000, EDC engaged the Canadian financial services community in various new co-operative efforts to provide trade and investment financing services.

Expanding our customer base and effectively redefining our target market to encompass the needs of export-ready companies are priorities. One of EDC's key beneficiaries is Canada's small business community, which forms 89 per cent of EDC's customer base. EDC's specialized services for small- and medium-sized enterprises (SMEs) are complemented by those delivered in partnership with other financial institutions.

In 2000, EDC engaged the Canadian financial services community in various new co-operative efforts to provide trade and investment financing services. For example, the strategic alliance with London Guarantee gives Canadian exporters one-stop access to insurance on export and domestic sales. This initiative has helped spawn an indigenous domestic credit insurance business in Canada, creating more competition and allowing EDC to focus on additional export-related partnerships. Such relationships are instrumental in enhancing Canada's trade finance capacity and are therefore a cornerstone of EDC's strategy. EDC will continue to focus on similar partnerships and strategic alliances that give Canadians a stronger platform for international growth.

EDC also made important investments in e-commerce and information technology, in terms of both people and processes, that help deliver on its promise of customer responsiveness and flexible solutions. Ultimately, these investments will enable EDC to be as connected to its customers as it is to the Web-based world. We hired Ron Dahms as Senior Vice-President, Business Development, to hone this strategic focus. He will ensure that EDC takes advantage of every opportunity to serve as a catalyst of international growth for Canadian businesses, large and small.

Balance and leadership

EDC's commercial orientation is finely balanced with corporate social responsibility practices, particularly related to the environment, public accountability and its cause of choice, Education and Youth Employment (EYE).

EDC continues to be a leading proponent at the OECD of establishing common approaches by export credit agencies (ECAs) for assessing and mitigating the environmental impacts of projects. Owing to its expertise in this area, EDC was invited to several international gatherings of financial institutions, including ECAs, to help enhance the environmental review practices of all ECAs.

In its work with exporters of environmental goods and services, EDC strengthened its collaboration with the Canadian Environment Industry Association (CEIA), in order to ensure that its members are aware of the solutions that EDC can offer to export their essential technologies and services globally.

Committed to establishing clear, definable means for disclosing more information on its trade finance activities, EDC held public consultations on this issue. By year-end, EDC released its draft disclosure policy outline for review and feedback by interested parties. EDC will launch its updated disclosure policy in 2001.

EDC is also committed to developing a stronger export culture in Canada, as demonstrated by the creation of its EYE Strategy, which includes support for Junior Team Canada and a national scholarship program. EDC has also established a three-year partnership with the Forum for International Trade Training (FITT) to help update its export-related training programs.

In 2001, EDC will continue investing in leadership and technical training to increase organizational effectiveness.

Focus on the future

EDC will continue to execute its public policy role using the best of private sector methods. Its corporate objective of creating and delivering capacity, capability and opportunities in support of Canadian companies pursuing international business will continue to be achieved through prudently managing higher levels of risk in up to 200 markets, and providing innovative services – often in partnership with private sector players – to keep Canadian exporters and investors competitive in world markets.

EDC will continue to invest in people, technology and processes to enable it to leverage and expand its business development reach, market knowledge and financial solutions. Increasing the number of customers served to 10,000 by 2004 is one of the cornerstones of EDC's strategic plan and provides a real focus to achieving the corporate vision.

EDC will establish an advisory council in 2001, made up of external stakeholders, to assist in ensuring that its strong corporate social responsibility framework remains appropriate to its mandate and the public interest at large.

EDC's employees' skills and experience, combined with their passion to learn and to challenge the status quo, make EDC tick. These traits are embedded in EDC's values. They are key to EDC's consistently high employee satisfaction index, which compares very favourably with those of other leading North American firms.

EDC houses the largest pool of trade finance skills under one roof in Canada, and it must continue to attract, retain and motivate this important Canadian resource. In 2001, EDC will continue investing in leadership and technical training to increase organizational effectiveness. We are working towards becoming a true employer of choice in our field, to best provide for the increasingly demanding needs of our growing customer base.

EDC's people are its customers' best allies in the global marketplace. On behalf of management, I would like to again publicly acknowledge their exceptional performance. Their skills and passion for EDC's mandate are a veritable "brain gain" for Canada.

A. Ian Gillespie
President and Chief Executive Officer

Message from the Chairman

The year 2000 produced continued growth and outstanding results for EDC. Consequently, we have attracted more attention and scrutiny than at any time in our 56-year history. We welcome and have encouraged the interest in our activities.

The mandated Parliamentary review initiated two years ago by the Minister for International Trade raised important issues – environmental standards, transparency and human rights – that are very much on the future agenda for our shareholder, the Government of Canada, for the Corporation, and for similar agencies worldwide.

EDC operates as one of Canada's largest Crown corporations, protecting the commercial privacy of its growing customer base, while ensuring that the shareholder's views are firmly taken into account in the decisions taken by management and the Board of Directors.

To improve the Corporation's flexibility and to reduce its risk exposure, we have implemented enterprise-wide risk management after a thorough review of the Corporation's risk management policies. We have enhanced incentive pay for employees and created an EDC pension plan. We have also approved increased financial resources to improve our information technology and other systems to ensure that customers have on-line and real-time access to EDC's programs in the future.

Our corporate governance policies and ethical standards are leading-edge judged against others in the private and public sectors. The Auditor General's review of EDC's environmental framework, first introduced in 1999, will be completed in early 2001. EDC's 1999 annual report won the Auditor General's Award for Excellence in Annual Reporting, confirming an already high level of accountability in our financial reporting. We will make further improvements in the area of disclosure practices in 2001. We support the human rights policies of the Government of Canada.

Patrick J. Lavelle
Chairman of the Board of Directors

This year, EDC has reported record level profits at $194 million. This healthy return on assets enables the Corporation to function without government appropriations and to take on additional risk, while providing more services to exporters and investors. In addition, EDC has conservative reserves of $549 million for 2000 set aside for possible future losses.

As Chairman, I am indebted to the management and employees of EDC for their commitment to the Corporation's continued progress.

The directors on the Board play an integral and valued role in overseeing the Corporation and maintaining a strong governance structure. EDC Board members William Blundell, Raymond Setlakwe, Dennis Wood and Joy Kane retired from the Board in 2000. We thank them for their counsel. We also welcomed newest Board member Dominique Vachon, Vice-President and Chief Economist of the National Bank of Canada.

In a world where change is a constant, our goal is to see EDC continue on its path to becoming a recognized leader in providing groundbreaking trade finance services for Canadian exporters and investors.

P. Lavelle

Patrick J. Lavelle
Chairman of the Board of Directors

Performance Against Objectives*

Strategic Objectives and Results 2000

EDC in a Leadership Role

Establish a strong reputation for corporate social responsibility

	Results
• Take a leadership role in the adoption of environmental review standards	▶ EDC's environmental review framework (ERF), in place since 1999, was found by an independent consultant to be best-in-class. EDC has taken an active role at the OECD to establish common approaches among participants with respect to environmental issues. Also, EDC concluded a significant partnership with the Canadian Environment Industry Association (CEIA) to strengthen support for environmental industries exporters.
• Establish a disclosure framework	▶ After stakeholder consultations were held, a disclosure policy will be drafted and will be under public review for implementation in 2001.
• Better define and implement the Education and Youth Employment (EYE) initiatives	▶ A comprehensive EYE Strategy was implemented, which included a work and scholarship program, partnerships with various youth organizations and sponsorships of youth-related events.
• Develop a plan to incorporate human rights into our country risk assessments	▶ The Department of Foreign Affairs and International Trade (DFAIT) and EDC worked on improving a system to provide guidance to EDC on foreign policy in general and human rights issues in particular.
Implement the new corporate identity and branding to more accurately reflect our dynamic and commercial nature	▶ The new corporate look and feel was implemented, launched with a national TV campaign in January. The name and logo conversion require legislative amendment not concluded in 2000.

**Initial 2000 targets were set in the fall of 1999 in the context of developing EDC's Corporate Plan. Management subsequently set new operational targets for 2000 for some of the measures, based on 1999 year-end results. Targets for 2001 are based on the 2001–2005 Corporate Plan.*

Strategic Objectives 2001

EDC in a Leadership Role

Expand on EDC's corporate social responsibility practices

- Continue to play a leading role with respect to environmental review practices, including strengthening our own ERF, and increase support to environmental exporters
- Continue implementation of the EYE Strategy and develop performance measures to test effectiveness
- Implement an enhanced disclosure policy and hold regular consultations with stakeholders
- Create an advisory council to advise management on best-in-class practices

Evolve EDC's role in a commercial marketplace

- Seek FAA reclassification
- Increase visibility through marketing and communications efforts
- Build on the new corporate look and feel

Ron Dahms
Senior Vice-President, Business Development

Strategic Objectives and Results 2000

Capture Opportunities for Canadian Companies

Support a growing number of companies selling or investing abroad by providing the products and services required to meet their needs

Objectives	Results:
• Increase the number of customers served to 5,700 • Increase the number of SMEs served to 5,015	▶ EDC served 5,679 customers in 2000, an increase of 10 per cent over 1999. Of these customers, 5,081 were small- and medium-sized exporters, a 12 per cent growth over 1999. Notably, the number of **new** emerging exporters served increased to a total of 675 in 2000, our most successful year to date in serving this important customer segment.
• Achieve a retention rate of 84 per cent of prime insurance customers	▶ An impressive 88 per cent retention rate of prime insurance customers was achieved.
• Achieve a customer satisfaction index of 80.0	▶ EDC continues to enjoy strong support and satisfaction from its customers. This year, EDC achieved a customer satisfaction index of 79.6 per cent.

Provide an increasing level of support to Canadian companies to help them compete internationally

Objectives	Results:
• Increase the volume of business supported by EDC to $45 billion	▶ 2000 was yet another record year for EDC as it concluded $45.4 billion in business volume, an increase of 13 per cent over 1999.*
• Increase the volume of business in developing countries to $11.25 billion	▶ Business in developing countries, a key strategic focus for EDC, increased by seven per cent to $10.5 billion.

**Includes $4.7 billion in domestic volume, of which $525 million is underwritten on London Guarantee's books.*

Strategic Objectives 2001

Capture Opportunities for Canadian Companies

To serve more customers, EDC must identify new lines of business while nurturing its existing customer base

- Increase the number of customers served to 6,250
- Increase the number of SMEs served to 5,500
- Target the export-ready market, cultural and environmental exporters and women entrepreneurs
- Achieve a customer satisfaction index of 80.0
- Increase partnerships and alliances to reach a wider base of customers
- Introduce e-business initiatives

Provide an increasing level of support to Canadian companies to help them compete internationally

- Build the volume of business supported by EDC to $45 billion excluding domestic. This represents an 11 per cent increase.
- Increase the volume of business in developing countries to $12 billion

Strategic Objectives and Results 2000

Capture Opportunities for Canadian Companies

Expand EDC's network of partners to create and strengthen capacity in the private sector

	Results:
• Pursue a partnership that will allow for a seamless delivery of both domestic and international credit insurance for our customers	▸ EDC signed a new strategic alliance with London Guarantee that provides "one-stop shopping" access to both export and domestic receivable insurance.
• Identify and pursue partnering opportunities with other financial players	▸ EDC expanded its relationships with insurance brokers and combined forces with Canadian banks to support a number of projects abroad. In total, eight new partnership arrangements were concluded.

Financial Health

Generate an adequate rate of return to support future risk taking

	Results:
• Net income of $146 million	▸ EDC achieved a net income of $194 million.
• Financial Sustainability Ratio (FSR) of 14.9 per cent	▸ EDC achieved an FSR of 14.9 per cent.
• Internal Efficiency Ratio of 14 per cent	▸ The Internal Efficiency Ratio came in at 13.6 per cent.
• Return on Equity (ROE) of 7.5 per cent	▸ The result on ROE was 9.7 per cent.
• Further develop credit and market risk management processes	▸ An Enterprise Risk Management (ERM) framework was developed and introduced.

Strategic Objectives 2001

Capture Opportunities for Canadian Companies

Develop partnerships to strengthen Canadian capacity in the private sector

- Cultivate relationships with brokers
- Create financing opportunities with Canadian financial institutions
- Build a bank relationship network

Financial Health

Manage financial risks to ensure an adequate rate of return to support future business

- Net income of $295 million
- FSR of 14.6 per cent
- Internal Efficiency Ratio of 16.5 per cent
- ROE of 12.6 per cent
- Continue enhancing our ERM framework

Strategic Objectives and Results 2000

Internal Readiness

Strengthen internal capabilities to enable EDC to deliver capacity and opportunities

Objectives	Results:
• Focus on employee retention, targeting a voluntary turnover rate under 10 per cent	▸ The turnover rate came in at 9.2 per cent.
• Provide an average of five training days per employee in 2000	▸ On average, employees received five days of training.
• As part of our Leadership Development program, offer leadership workshops to all leaders, develop a leadership competency framework and a succession planning process	▸ Some 93 leaders attended leadership workshops. Two leadership conferences were held. ▸ A competency framework was developed and a pilot conducted in 2000 for validation. ▸ A leadership continuity review was conducted for all leadership positions in 2000 and the succession planning process was strengthened.
• Create an EDC pension plan	▸ EDC implemented its new pension plan.
• Redesign the employee opinion survey (EOS)	▸ The EOS was redesigned this year and administered in the fall. A response rate of 90 per cent was recorded versus last year's 70 per cent. Higher scores were registered with respect to each of the targeted issues from the previous year's survey. ▸ A recognition program was developed and implemented to identify and celebrate those employees who best demonstrate EDC's values.

Susanne Laperle
Senior Vice-President, Human Resources (joined EDC in February 2001)

Optimize the use of technology

Objectives	Results:
• Continue to develop our e-business strategy	▸ EDC Direct was launched with added value services such as on-line credit approvals, economic summaries and Oxford Analytica.
• Increase use and functionality of EDC Direct, our Web-based customer access system	▸ ID- and CD-ROMs were developed to showcase EDC's solutions and value-added expertise.
• Design and run a pilot of Globex, an enhanced support system for the management and administration of short-term credit insurance policies	▸ The business case for Globex was successful and the new system will now be fully developed.
• Proceed to production phase for our new treasury management system (Integral) and new loans administration system (ACBS)	▸ Both ACBS and Integral went into production mode in 2000 and became systems of record for the Corporation.

Strategic Objectives 2001

Internal Readiness

Strengthen internal capabilities to enable EDC to deliver capacity and opportunities

- Maintain voluntary turnover rate at less than 10 per cent
- Invest an average of five days per employee in training in 2001
- Fully roll out the leadership competency framework and 360° feedback assessment tool and align training to needs
- Review employee benefits and work/life programs
- Target an improvement in key areas with respect to recently completed employee survey

Invest in technology to serve more customers, more efficiently

- Capitalize on high growth opportunities in e-business
- Enhance "self-service" to short-term customers by automating key aspects of policy administration
- Evolve our systems infrastructure
- Begin implementation of Globex System
- Complete Phase 2 of MBC (MLTFS Business Centre), Integral and ACBS projects

Serving Small Business Better

EDC's financial services are designed to help small- and medium-sized enterprises (SMEs) extend their reach and influence around the world. In 2000, EDC focused on finding better ways to service SMEs through new marketing initiatives, technological innovation, and partnerships and alliances with other financial institutions. This critically important business sector accounts for almost 90 per cent of the total number of customers EDC serves.

The numbers tell the story: EDC supported $7.5 billion in exports by 5,081 SMEs to 154 countries. A total of 2,441 of these customers were served through EDC's Emerging Exporters Team (total insured accounts receivable up to $1 million), including 675 smaller businesses that took EDC's accounts receivable insurance for the first time. Also, small- and medium-sized capital goods and service exporters supported 82 transactions in 17 countries using EDC's SME financing services.


Rolfe Cooke
Senior Vice-President, Short-term Financial Services

EDC continues to expand its partnerships and alliances with various financial institutions in order to maximize the variety of financial services available to smaller businesses.

- In 2000, EDC entered into an agreement with London Guarantee Insurance Company to deliver domestic accounts receivable insurance under a joint policy.
- NORTHSTAR Trade Finance Inc. – a strategic EDC partner in the medium-term buyer financing field – helped 34 exporters conclude $49.9 million in smaller capital goods sales to 16 countries.
- The Master Accounts Receivable Guarantee Program (MARG) supports SMEs by encouraging banks to increase operating line financing – 146 customers served in 2000.
- Scotia America's Capital Equipment Purchase Program provides medium-term buyer financing for smaller transactions in selected Latin American and Caribbean markets.
- Financing with EDC insurance support is also now available to smaller exporters through the Export Ease Plus Program with Montcap Financial Corporation, Natexport, TD Bank, i Trade Finance Inc., and Actrade Capital Canada as well as through traditional bank support.
- Receivables management and EDC insurance are available through the original Export Ease Program with Accord Business Credit.

Support for SMEs has also been expanded through electronic product and service delivery. Customers can now source on-line buyer credit approvals and access updated country economic reports through EDC's Web site. Planned for introduction in the first half of 2001 are enhanced credit information; EDC's opinion on the insurability of individual buyers; and on-line processing of performance and bid security insurance. Eventually, many other products and services suited to an e-commerce environment will be provided on-line.

No company is too small to export and no exporter is too small for EDC. In 2000, the Corporation increased awareness of its financial services to a growing number of smaller businesses through expanded direct mail, advertising and outbound telemarketing campaigns, and a renewed emphasis on generating new customer referrals.

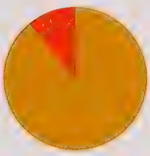
SME SCORECARD

	Dec. 31, 2000	Target	% Achieved	Dec. 31, 1999
SME – Customer count (direct and indirect)	5,081	5,016	101%	4,550
SME – Business volumes ($ millions)*	7,508	7,200	104%	6,122
Emerging Exporters (EE) – No. of new customers**	675	660	102%	624
EE – Avg. credit approval turnaround time	1.9 days			1.5 days

* *Includes $1.2 billion in domestic volume, of which $171 million is underwritten on London Guarantee's books.*

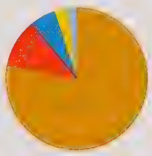
** *Results for the EE Team are based on direct customers only.*

SMEs AS A PERCENTAGE OF EDC'S CUSTOMER BASE



SMEs – 89%
Large Exporters – 11%

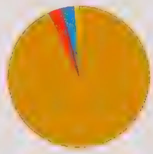
SME VOLUME BY GEOGRAPHIC MARKET



North America/Caribbean* – 78%
Europe – 11%
Asia/Pacific – 6%
South America/Central America – 3%
Middle East/Africa – 2%

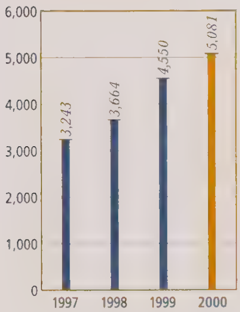
** Includes Mexico*

SME PRODUCT USAGE

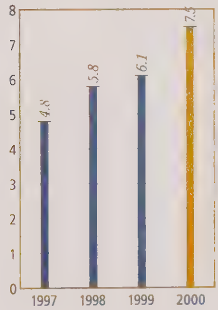


Short-term Insurance – 93%
Financing – 3%
Contract Insurance and Bonding – 3%
Political Risk Insurance – 1%

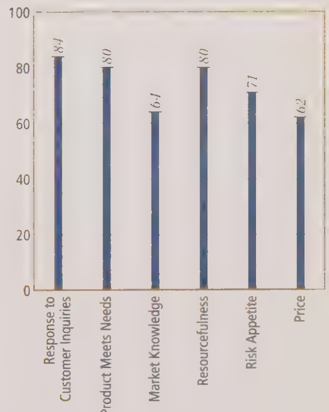
NUMBER OF SME CUSTOMERS



VOLUME SUPPORT FOR SMEs
($ in billions)



SME SERVICE ATTRIBUTE RATINGS
(%)



Committed to Corporate Social Responsibility

At EDC, we see corporate social responsibility (CSR) as an integral part of doing business. Just as innovative trade finance solutions are crucial to business growth, CSR practices help establish EDC's integrity and viability as an organization. These practices have four strategic thrusts: conducting business ethically, considering the environmental impacts of proposed transactions and promoting environmental improvements, strengthening public accountability, and increasing community investment, particularly related to education and youth employment.

As a Crown corporation, EDC will continue to conduct its activities in a transparent and socially responsible manner, to fully preserve the strong reputation that Canada holds internationally and at home. Following is an overview of the progress EDC has made in its key CSR practices during 2000, and its ongoing initiatives.

Conducting business ethically

EDC aims to ensure that all employees adhere to the highest standards of ethical conduct. The *Code of Business Ethics* covers EDC's commitment to legal and ethical conduct, the environment, human rights and prohibitions against bribery and corruption. The *Code of Conduct* governs ethical standards, conflicts of interest, confidential information, insider trading and related matters. All EDC employees, directors and officers renew their understanding and compliance with the *Code of Conduct* through an annual review and sign-off.

In 2000, responsive to Canadian legislation and the OECD initiative related to combatting bribery, EDC began examining how to better ensure that it does not knowingly or unknowingly support a transaction that involves the offer or giving of a bribe. As a result of its review, EDC will include various provisions against corruption in its transaction documentation and take other measures designed to protect itself and its employees, and to comply with international commitments.

On international human rights issues, EDC recognizes and abides by foreign policy and practices formulated by the Government of Canada. EDC receives information on these issues from the Department of Foreign Affairs and International Trade. In 2000, EDC worked closely with Foreign Affairs to increase the timeliness and quality of this information, enabling EDC to better assess the human rights impact of specific activities. This is an ongoing commitment by both parties.

Protecting the environment – a strategic imperative

EDC addresses environmental issues on three levels: by assessing and mitigating the environmental effects of proposed transactions, by advocating responsible environmental practices internationally, and by

Eric Siegel
Executive Vice-President, Medium- and Long-term Financial Services

encouraging exports of Canadian environmental solutions – expertise, technology and services.

EDC considers the environmental risks and impacts of proposed transactions using guidelines set out in its *Environmental Review Framework* (available at www.edc.ca). This process aims to ensure that all projects financed or insured by EDC adhere to widely accepted environmental practices for the industry concerned.

EDC's Engineering and Environment team has contributed to better environmental performance on several international projects; typical examples include assisting a major hydroelectric power utility to

develop an environmental emergency response plan, and requiring the installation of equipment to decrease the generation of nitrous oxides in several gas-fired power plants.

In 2000, EDC strengthened its training of financial staff to improve their ability to flag environmental and social concerns in proposed transactions. These are then reviewed by a skilled team of engineers and environmental specialists, the largest such team among export credit agencies (ECAs).

In response to a recommendation from the Parliamentary review of the Export Development Act, EDC is undergoing an audit of its environmental review practices by the Auditor General of Canada and the results will be made public in 2001.

Internationally, EDC is a leading proponent, among ECAs around the world, of establishing common approaches to assess and mitigate the environmental impacts of projects. In 2000, EDC was invited to several international gatherings of financial institutions and ECAs to share its expertise on this subject.

EDC is committed to establishing clear, definable means for disclosing more information on its business activities to the public, while at the same time ensuring commercial confidentiality for its customers.

EDC continues to enhance its support to Canadian exporters of environmental goods and services, and to the industry as a whole. A milestone was EDC's sponsorship of GLOBE 2000, North America's major environmental conference. As well, EDC and the Canadian Environment Industry Association (CEIA) have undertaken a joint survey, which will enable EDC to better adapt its support to the needs of the industry, with particular focus on small- and medium-sized enterprises.

Strengthening public accountability

EDC is committed to establishing clear, definable means for disclosing more information on its business activities to the public, while at the same time ensuring commercial confidentiality for its customers. In 2000, EDC began work to enhance its policy, thereby strengthening its disclosure of information relevant to the public.

Public consultations on information disclosure, conducted by the Environics Research Group, were completed in September 2000. The results were made public through EDC's Web site (www.edc.ca), followed by the release of a draft policy outline for review and feedback by interested parties. The disclosure policy will be implemented in 2001.

EDC has also identified appropriate stakeholders, including business, civic (public and non-governmental) and academic leaders, with whom it may regularly engage on specific issues. This may include general information sessions and consultations on topical issues and concerns. Two information sessions for stakeholders were held in 2000.

Investing in education and youth – EDC's cause of choice

The goal of EDC's Education and Youth Employment (EYE) Strategy is to partner with educational institutions and key stakeholders to build an export culture in Canada, while fostering learning and employment opportunities for youth.

In 2000, EDC launched an International Studies Scholarship program that provides $1 million over three years to students pursuing undergraduate or graduate studies in business or economics with a focus on international business, international relations or finance. The scholarships also offer the recipients first-hand experience in their fields through an apprenticeship at EDC. The first 18 recipients were announced in fall 2000.

Throughout the year, EDC increased its partnerships with respected Canadian educational institutions and trade-focused youth organizations, with activities ranging from supporting case-study research to sponsoring Junior Team Canada regional training centres. EDC has also hired close to 50 students for summer and co-op work placements, providing them with valuable work experience in international trade finance. EDC will continue to increase its support for education and youth employment in 2001, by welcoming the scholarship winners for work terms at EDC along with its regular summer student employees.

Canada: The Global Trader

International trade is the most basic building block of national prosperity. It is through the exchange of goods and services that nations can specialize in areas of economic activity for which they are best suited, thereby maximizing the employment, incomes and general well-being of all of their citizens.

Canada's economic history is testament to this, as international trade has always played a greater role here than in any other major economy. While the Canadian economy represents only about two per cent of the global economy, Canada accounts for nearly five per cent of world exports. Its share of global trade has risen steadily in recent years, and the ratio of exports to total gross domestic product (GDP) in Canada is now around 43 per cent.

In the past, countries relied heavily on tariffs and other trade restrictions to further their international interests. Today, the universal benefits of unfettered international trade are much more widely appreciated, although pockets of protectionism remain. As a result of significant progress made in liberalizing trade, the international marketplace has become much more competitive. Today, most Canadian companies must look to the global marketplace in order to survive, because concentrating on the Canadian market alone will not permit them to expand their business to the point where they can compete with larger foreign companies.

EDC – A trade facilitator

Helping large and small Canadian companies alike to compete on the world stage is what EDC's mandate is all about. International trade is risky, and it requires financial capacity that is often lacking because of those risks. EDC was created to help companies manage those risks and to increase the international finance capacity available to Canadian companies. By enhancing Canada's export capacity, EDC helps companies create and maintain employment and generate profits.

EDC serves Canadian exporting companies in a variety of ways, by providing basic credit insurance, contract insurance and political risk insurance and by financing foreign purchases of Canadian goods and services. Each type of transaction has its own implications for the Canadian economy. In 2000, EDC undertook $45.4 billion in transactions on behalf of Canadian companies. This represents approximately 10 per cent of all of Canada's exports last year. And, given that about half of Canada's exports take place between Canadian and foreign sub-units of the same firm, this means that EDC facilitated a fraction approaching one-fifth of Canada's final exports in 2000.

Most Canadian companies that use EDC's services are small- and medium-sized enterprises (SMEs). EDC worked with 5,081 SMEs in 2000, bringing its total customer count to 5,679, a 10 per cent increase over 1999. The total volume of SME transactions amounted to just over $7.5 billion in 2000, up from $6 billion in 1999, and their share of total business volume increased on the year.

Delivering benefits to Canadians

EDC's activities are making a significant contribution to Canadian prosperity. A good measure of this contribution is its impact on Canada's GDP, which represents the total of all of the income generated in Canada. Most goods and services produced in Canada for export make use of imports somewhere in the production process, and this must be netted out in order to estimate EDC's contribution. Taking this into account, EDC estimates that the exports it facilitated in 2000 helped generate 3.9 per cent of Canada's total GDP in 2000, up from 3.7 per cent in 1999.

International Trade Minister the Honourable Pierre Pettigrew addresses EDC employees.

A significant by-product of EDC's activities is the accompanying increase in employment and incomes. This, too, varies considerably across sectors of the Canadian economy. Taking these differences into account, we estimate that the exports facilitated by EDC in 2000 supported approximately 480,000 person-years of employment, up 17 per cent from 1999, and 3.2 per cent of total employment in Canada.

Higher export sales also help companies finance research and development (R&D) in Canada. By correlating the sectoral breakdown of EDC's business with a similar categorization of R&D spending in Canada, we have constructed an index measuring the R&D intensity of our activities. In 2000, the average level of R&D intensity across the spectrum of EDC's business increased by nearly 27 per cent compared with 1999. This is because R&D-intensive sectors such as telecommunications, aerospace, computer services and software were Canada's export leaders.

These estimates of the economic benefits of EDC's operations are conservative because they do not include any second-round effects. An increase in a company's export sales boosts profits, dividends and salaries, and these increases finance more spending by companies and individuals in the future, which creates even more benefits. Similarly, EDC's participation in a financing consortium or in an insurance arrangement often acts as a catalyst to the participation of other financial intermediaries. This means that the ultimate size and potential of a transaction, in terms of Canadian export sales, is larger than indicated by the business volumes that EDC records.

The bottom line is that EDC helped a record number of Canadian companies manage a record level of international financial risks in 2000. Its business volume in higher-risk markets was $10.5 billion in 2000, up seven per cent over the previous year, and involved some 140 countries. EDC also began making its economic and political risk analyses of individual countries available to customers on-line in 2000, thereby helping companies to identify risks and opportunities from their own individual perspectives.

The outlook for 2001

The growth in demand for EDC's services in 2000 was driven mainly by the need for increased export finance capacity. In fact, with the world having recovered almost fully from its series of financial crises through Asia, Russia and Latin America during 1997–99, the risks associated with international trade eased noticeably in the first half of the year.

Global GDP growth averaged nearly five per cent in 2000, well above its historical average. This boosted both interest rates and oil prices, and the consequent signs of a moderation in economic growth began to emerge clearly in the second half of the year, particularly in the United States. Stock markets slumped, credit spreads widened and the international environment became more threatening, raising concerns of a significant global slowdown for 2001.

Interest rates have already begun to decline in response to these conditions. Presently, it appears likely that world economic growth will moderate but remain solid in 2001, at around 3½ per cent. Most of the moderation in growth will be in the United States, which will slow to around two per cent growth, whereas the European and Canadian economies should still post a growth rate in the range of three per cent or better. Under these conditions, the world's major currencies will probably continue to realign themselves, with the U.S. dollar softening against the Canadian dollar, and especially the Euro, as a consequence.

Presently, it appears likely that world economic growth will moderate but remain solid in 2001, at around 3½ per cent. Most of the moderation in growth will be in the United States.

Although the emerging moderation in world economic growth has pulled oil prices back from their peaks, higher energy costs are posing difficulties for some energy-intensive economies, especially in Asia. Tensions have begun to show in some countries, such as Thailand and the Philippines. However, the large Asian economies are much stronger now than they were in 1997, given the extensive reforms that have taken place since then. This is true for China, India, South Korea, and, albeit haltingly, Japan. Asia's economic foundations are therefore strengthening, and the prospect of lower oil prices points to a solid year for the region in 2001, with average growth of four to five per cent.

Latin America has recovered from its recession, and growth in the region should be around four per cent in 2001. Countries maintaining sound macroeconomic policies and flexible exchange rates – namely Brazil, Chile and Mexico – are leading the region in terms of economic growth, and this trend will continue in 2001. Argentina will lag behind the region as a whole, as maintenance of its currency peg has pushed its cost structure far above those of its regional competitors. Stronger oil prices are benefiting the exporters – Argentina, Colombia, Ecuador, Mexico and Venezuela – but these effects will be less powerful in 2001 now that prices have come off their peaks.

Economic activity is also recovering in Central and Eastern Europe, and this will continue on the back of core Europe's solid outlook. Russia's economy is highly dependent on oil and other commodities, and higher prices have built a new platform for economic growth. Whether that situation prompts the appropriate reforms to the underlying economy remains unclear. Meanwhile, East European countries aspiring to become members of the European Union are performing very well, including the Czech Republic, Hungary, Poland, Slovakia, Slovenia and Estonia.

Stronger commodity markets have also improved the outlook for many Middle Eastern and African economies. GDP growth in the Middle East should average around four per cent in 2001. Average growth in Africa will be even stronger, as the stronger world economy meets with significant structural reforms in such countries as Cameroon, Ghana, Mozambique, Tanzania and Uganda. South Africa's economy will gather momentum in 2001. The situation has improved in Nigeria as well, but wholly on the back of higher oil prices. Without significant reforms, the economy will suffer as oil prices recede.

Canadian exports to post solid growth in 2001

This global survey paints a reasonably positive picture for Canadian exporters in 2001. Overall, export sales growth of about four to five per cent is expected in 2001, after growth in 2000 of around 15 per cent – a figure that was inflated by skyrocketing energy prices. Although growth in exports to the United States will moderate, sales should still be four per cent higher than in 2000, supported by continuing investment in new technology. Meanwhile, Canada's sales to most other markets should post double-digit growth rates, offsetting some of the slowdown in U.S. sales.

Moderating sectors will be those targeted at the U.S. consumer – lumber, assembled automobiles, and other consumer durables will bear the brunt of the slowdown. Energy and other commodities will post solid growth, but with softer prices in most cases. The stronger export sectors will be agri-food, chemicals, plastics, fertilizers and, especially, high-tech capital equipment. The solid global investment undercurrent will continue in 2001, supporting Canada's sales in the telecommunications, environmental technologies, aerospace, computer and other machinery and equipment sectors.

Slower growth in Canadian exports to the U.S. economy, coupled with strong growth in sales to other regions, will result in a business mix that generally makes more intensive use of EDC's services.

Increased demand for EDC's services

The outlook for 2001, therefore, suggests that there will be continued growth in demand for EDC's services this year. The volume of global international trade will probably grow by six to eight per cent, assuming the world economy remains in good health, and foreign direct investment flows will also remain strong. In addition, slower growth in Canadian exports to the U.S. economy, coupled with strong growth in sales to other regions, will result in a business mix that generally makes more intensive use of EDC's services. Furthermore, the macroeconomic environment will be one in which many businesses will be concerned about downside risks, in stark contrast with the situation in 1999–2000, when the business outlook appeared especially bright. When coupled with the likelihood that exchange rate volatility will be relatively high, 2001 will probably be perceived as a riskier setting for international business than last year.

EDC is committed to helping Canadian companies mitigate those risks so that export sales continue to underpin our economic growth. EDC has demonstrated its appetite for international risk repeatedly in the past, including during the Asian crisis of 1997, which prompted many private financial intermediaries to withdraw from the marketplace. Such episodes underscore the need for a financial institution devoted exclusively to the financial needs of Canadian exporters.

Stephen Poloz
Vice-President and Chief Economist

Team Work

EDC delivers its products and services through industry sector-based business teams. These teams cover the landscape of Canadian industrial capabilities from advanced technology and telecommunications to agri-food and mining. The business teams work with exporters and investors to create financial solutions that meet customers' specific needs.

Several product teams provide in-depth expertise to the sector-based teams. The Project Financing Team provides limited-recourse financing to address exporters' needs for flexible and innovative financing. The Political Risk Insurance Team delivers leading-edge support to investors, exporters and financial institutions. The Equity Team provides supplemental, medium-term equity on a commercial basis for transactions that generate direct, quantifiable benefits to Canada. The Contract Insurance and Bonding Team delivers tailored commercial risk management solutions and indirect working capital support.

Executive Management Team

A. Ian Gillespie
President and Chief Executive Officer

Peter Allen
Senior Vice-President and Chief Financial Officer

Rolfe Cooke
Senior Vice-President, Short-term Financial Services

Ron Dahms
Senior Vice-President, Business Development

Susanne Laperle
Senior Vice-President, Human Resources

Gilles Ross
Senior Vice-President, Legal Services, and Secretary

Eric Siegel
Executive Vice-President, Medium- and Long-term Financial Services

Management Representatives

Jim Brockbank
Risk Management Office

Jim Christie
Western Region

Jim Curley
Short-term Credit

Don Curtis
Industrial Equipment

June Domokos
International Markets

Peter Foran
Information Technologies

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance and Control

Pierre Gignac
Insurance and Loan Services

Peter Hepburn
Engineering and Professional Services

Glen Hodgson
Government and International Relations

John Hutchison
SME Services

Louise Landry
Corporate Performance and Communications

Marc Leduc
Legal Services

Marie MacDougall
Treasury

Mike McLean
International Markets

Keith Milloy
Short-term Insurance

Mike Neals
Marketing

Sherry Noble
Structured Finance

Kevin O'Brien
Transportation and Equity

Brian Pearce
Internal Audit and Evaluation

Stephen Poloz
Economics

Ed Simac
Information Systems

Henri Souquières
Quebec and Atlantic Region

2000 Financial Review

Management's Discussion and Analysis

OPERATING HIGHLIGHTS

Income Statement Discussion

NET INCOME

Net income reported for 2000 was $194 million, an increase of $76 million over the 1999 level of $118 million. Volume increases in both financing and insurance generated a $108 million increase in net interest income and an $11 million increase in insurance premiums and guarantee fees. These results were partially offset by the increase in the provision for credit losses due to portfolio growth. Administrative expenses were higher mainly as a result of increased human resources, technology and occupancy costs required to manage higher business volumes.

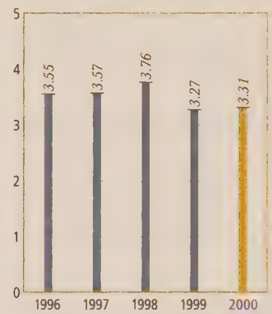
The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	2000	1999	1998	1997	1996
Net income	**194**	118	135	128	112
Shareholder's equity	**1,992**	1,798	1,680	1,545	1,417
Return (%) on shareholder's equity	**9.7%**	6.6%	8.0%	8.3%	7.9%

NET INTEREST INCOME

NET MARGIN

(%)

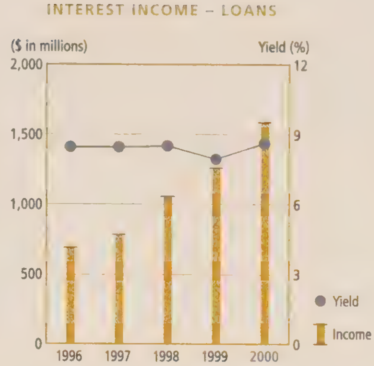


The 2000 net margin of 3.31%, which is net income expressed as a percentage of average performing assets employed, increased by 4 basis points from the 1999 level of 3.27%. This increase is partly due to a shift in foreign exchange translation from a loss of $12 million in 1999 to a gain of $1 million in 2000, which accounts for an increase of 6 basis points. An additional 3 basis points is due to a $7 million gain on sale of shares during the year. In 2000, Peru sovereign loans were performing for the full year compared with nine months in 1999, representing an extra three months of non-accrued capitalized interest being amortized into income, or an increase of 4 basis points. A decline of 4 basis points can be attributable to a proportionately higher weighting of marketable securities and investments to total average assets, which earn lower yields relative to loan assets and proportionately higher funding costs. Another decline of 4 basis points was caused by the reversal of interest on loans made impaired and other interest rate changes. EDC did not earn debt relief income in 2000, contributing to a further decline of 1 basis point.

($ in millions)	2000	1999	1998	1997	1996
Average gross loans receivable	**19,744**	17,331	14,286	11,129	10,073
Average cash, marketable securities and investments	**3,215**	2,758	1,908	1,759	1,701
Less: average impaired loans	**1,311**	1,468	1,861	1,869	1,919
Total average assets employed	**21,648**	18,621	14,333	11,019	9,855
Interest income:					
Loans	**1,585**	1,258	1,055	782	688
Marketable securities and investments	**197**	146	126	92	99
Total interest income	**1,782**	1,404	1,181	874	787
Interest expense	**1,066**	796	642	481	437
Net interest income	**716**	608	539	393	350
Net margin	**3.31%**	3.27%	3.76%	3.57%	3.55%

Interest Income – Loans

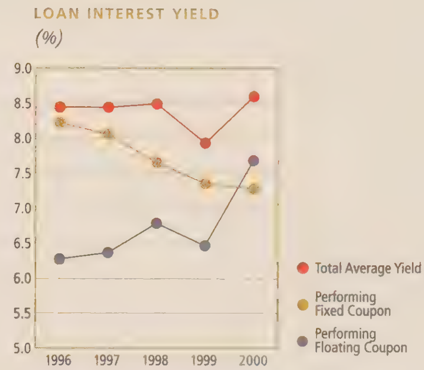
For 2000, loan interest income was $1,585 million, an increase of $327 million, or 26%, from the level of $1,258 million in 1999. The performing gross loans receivable averaged $18,433 million in 2000 (1999 – $15,863 million) with an average yield of 8.60% (1999 – 7.93%). In 2000, disbursements exceeded repayments by $2,776 million, which had the impact of increasing the average performing loans by $2,570 million, or 16%, over 1999.



Components of change in interest income – loans from prior year

($ in millions)	
Volume increases	174
Rate increase	123
Increase in other loan interest	30
Net change in interest income – loans	$327

Performing fixed rate loans receivable averaged $7,873 million in 2000 (1999 – $ 7,005 million) with an average coupon yield of 7.28% (1999 – 7.35%), earning interest of $573 million (1999 – $515 million). The coupon on performing fixed rate loans receivable decreased slightly over last year. This was due to the repayment of older loans earning higher interest rates reflective of previous periods, with current loan disbursements which carry lower interest rates. Disbursements during the year yielded 7.72% while existing loans repaid carried a yield of 8.31%.



The performing floating rate loans receivable averaged $10,560 million in 2000 (1999 – $8,858 million) with an average coupon rate of 7.68% (1999 – 6.46%) earning interest of $811 million (1999 – $572 million). U.S. dollar LIBOR averaged 6.53% in 2000, an increase of 1.14 basis points over the 1999 average. The rise in U.S. dollar LIBOR increased floating rate interest income accordingly and led to higher yields on the floating rate loans portfolio.

New fixed rate loans signed in 2000 yielded 7.81% compared with 7.35% in 1999. New floating rate loans signed in 2000 yielded 2.22% over LIBOR compared with 1.86% in 1999.

The following table analyzes loan interest income as a percentage of the average loans receivable:

($ in millions)	2000	1999	1998	1997	1996
Gross loans receivable:					
Average performing fixed rate	**7,873**	7,005	5,906	4,685	4,281
Average performing floating rate	**10,560**	8,858	6,519	4,575	3,873
Average performing gross loans receivable	**18,433**	15,863	12,425	9,260	8,154
Interest income – loans:					
Performing fixed rate interest	**573**	515	452	377	352
Performing floating rate interest	**811**	572	442	291	243
Other loan interest	**201**	171	161	114	93
Total interest income – loans	**$1,585**	$1,258	$1,055	$782	$688
Yields – performing loans					
Performing fixed rate coupon	**7.28%**	7.35%	7.65%	8.05%	8.22%
Performing floating rate coupon	**7.68%**	6.46%	6.78%	6.36%	6.27%
Total loan interest yield	**8.60%**	7.93%	8.49%	8.44%	8.44%

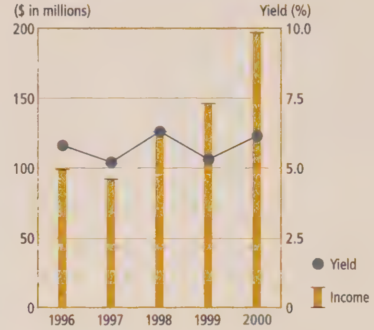
Other loan interest income comprises loan fee income and non-accrued capitalized interest (NACI) income. Total loan fee income was $113 million in 2000, compared with $96 million in 1999, a increase of $17 million. In 2000, loan prepayments caused an increase in fee income of $9 million, which did not occur in 1999. NACI revenue was $77 million in 2000, $8 million greater than in 1999. This increase is due to a full year of amortization of NACI into income for sovereign loans in Peru, which were reclassified to performing in May 1999. Also included in other loan interest income is a $7 million (1999 – nil) gain on sale of shares and cash receipts from impaired loans of $4 million in 2000 (1999 – $6 million).

Interest Income – Marketable Securities and Investments

Marketable securities and investment income increased by $51 million between 1999 and 2000. The net impact of higher overall investment volumes and an increase in the general level of interest rates account for this change.

Average investment balances (which include associated derivative contracts) increased from $2,758 million in 1999 to $3,215 in 2000. EDC maintained high investment balances at the beginning of the year to ensure the Corporation had sufficient liquidity to support its financial operations through the critical Y2K period. EDC also increased investment balances to meet large loan disbursements late in the year.

MARKETABLE SECURITIES AND INVESTMENT INTEREST INCOME



Components of change in interest income – marketable securities and investments from prior year

($ in millions)	
Volume increases	24
Rate increase	27
Net change in interest income – marketable securities and investments	$51

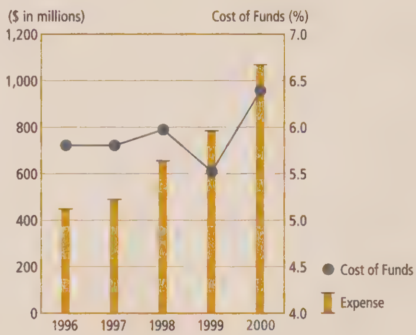
Investment yields increased from 5.29% in 1999 to 6.14% in 2000. This reflects the fact that interest rates in Canada and the United States were at higher levels during most of 2000 relative to 1999. Both the Federal Reserve Bank and the Bank of Canada increased rates by 100 basis points by the middle of the year.

Interest Expense

Interest expense increased by $270 million between 1999 and 2000. Three factors account for this change: an increase in overall debt volume, an increase in the general level of interest rates, and the impact of changes in foreign exchange rates on the translation of foreign currency balances.

The increase is primarily the result of higher borrowing requirements necessary to support elevated lending volumes and investment levels. The average balance of short-term debt increased from $3,429 million in 1999 to $3,574 million in 2000. The average balance of long-term debt also increased from $10,765 million in 1999 to $13,110 million in 2000. (It should be noted that the average balances for both short-term and long-term debt include associated derivative contracts.)

INTEREST EXPENSE (Excluding Foreign Exchange Translation Gain/Loss)



Levels of interest rates both in Canada and the United States were higher in 2000, relative to 1999. This was reflected in the average cost of funds, which increased from 5.52% in 1999 to 6.39% in 2000.

A strengthening of the Canadian dollar during 2000 reduced interest expense on foreign currency denominated debt by $8 million.

Interest expense, as reported on the income statement, includes the Corporation's foreign exchange translation gain/loss for the year. Included in interest expense for 2000 is a translation gain of $1 million (1999 – $12 million loss).

Components of change in interest expense from prior year

($ in millions)	
Volume increases	145
Rate increase	146
Foreign exchange impact on interest expense	(8)
Net change prior to foreign currency translation gain/loss	283
Change in the Corporation's foreign currency translation gain/loss	(13)
Net change in interest expense	$270

▶ INSURANCE PREMIUMS AND GUARANTEE FEES

The following table analyzes the average premium rate for insurance premiums and guarantee fees:

	2000		1999	
($ in millions)	$	%	$	%
Short-term program:				
Short-term insurance average exposure	**26,822**		24,862	
Premiums and fees earned	**103**		93	
Average short-term premium rate		**0.38**		0.37
Medium-term program:				
Medium-term insurance average exposure	**4,492**		3,240	
Premiums and fees earned	**34**		32	
Average medium-term premium rate		**0.76**		0.99
Loan guarantees				
Loan guarantees average exposure	**1,825**		1,795	
Loan guarantee fees earned	**7**		8	
Average loan guarantees fee rate		**0.38**		0.45

Short-term insurance premium revenue contributed $103 million, or 75% of 2000 premium receipts, an increase of 11% over 1999. This was the direct result of the growth in short-term insurance exposure, which increased by $1,960 million, or 8% over 1999.

The medium-term premium revenue for the year totalled $34 million, an increase of 6% over 1999. The average exposure in the medium-term insurance programs increased by $1,252 million, or 39% over 1999. This increase was primarily due to the growth in both the performance security and surety bond programs, which increased by $347 million and $727 million respectively from 1999 levels. The growth in the surety bond program, which carries a lower average premium rate, was the principal driver for the decrease in the average premium rate within the medium-term programs for 2000. The decrease in the average loan guarantee fee rate was driven primarily by the signing of loan guarantees with higher credit ratings, which carry lower guarantee fees.

▶ PROVISION FOR CREDIT LOSSES

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	2000	1999	1998	1997	1996
Provision for credit losses pertaining to:					
Loans	**381**	397	313	184	190
Insurance	**158**	133	88	59	68
Loan guarantees	**10**	(7)	32	52	12
Total provision for credit losses	**$549**	$523	$433	$295	$270

A provision charge of $381 million (1999 – $397 million) was made to the income statement for losses on loans. Approximately $246 million (1999 – $286 million), or 69% (1999 – 72%), can be attributed to portfolio growth. The

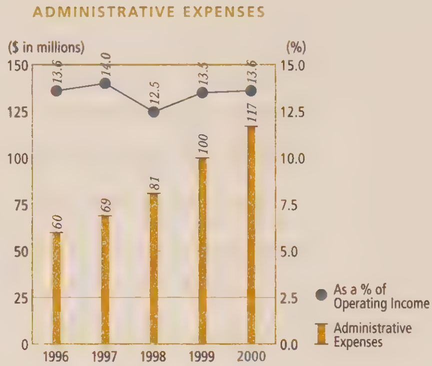
remainder resulted primarily from increases in the impaired sovereign portfolio and increased provisioning due to downgraded credit ratings.

During the year, there was a $158 million charge to the income statement for the provision for insurance claims. The increase in current insurance claim provisioning levels was partly the result of the year-end actuarial allowance valuation based on continued growth in the insurance portfolio. Of the total provision for insurance claims, $62 million was due to the re-evaluation of recoverable claims that were written off in 2000 (1999 – $82 million).

A provision charge was made to the income statement for credit losses on loan guarantees in the amount of $10 million (1999 – $7 million recovery). This was the result of continued slow growth in new signings and little activity on existing guarantees.

ADMINISTRATIVE EXPENSES

Net administrative expenses for 2000 totalled $117 million, an increase of 17% from the prior year. Expenditures for salaries, benefits, technology and occupancy were higher as a result of strategic investments in technology and people in order to sustain the Corporation's growth rate. Expressed as a percentage of operating income (efficiency ratio), administrative expenses increased slightly to 13.6% in 2000, from 13.5% in 1999.



Corporate Plan Discussion

COMPARISON WITH 2000 PLAN

Business volumes for 2000 reached a record $45.4 billion, an increase of 13.2% over the 1999 level of $40.1 billion, and exceeded the 2000 planned volume of $42.0 billion. This increase over plan can be attributed to contract insurance and bonding surpassing plan by $1.5 billion, political risk insurance by $400 million and financing by $1.7 billion.

Loans payable decreased and loan assets increased slightly since cash and investments decreased by 36% compared with plan, mainly due to the Y2K strategy. In 1999, cash and investments increased to provide sufficient liquidity for Y2K, and in 2000 these investments were used to fund disbursements.

The 2000 net income of $194 million surpassed the 2000 Corporate Plan projection of $74 million. Net interest income exceeded planned amounts by $29 million; however, insurance premiums and guarantees fell short by $7 million. Further, the 2000 plan included additional provisions for credit losses as a result of the planned Year 2000 impact on the portfolio, which did not materialize, and loan asset growth was slower than anticipated, translating to a $96 million decrease in the provision for credit losses. Administrative expenses were below plan by $2 million.

2001 CORPORATE PLAN

The Corporate Plan projects the year 2001 business volume to remain at $45 billion, which represents export volume only, whereas the 2000 planned volume included domestic volume of $4.1 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 2001 and undisbursed loans with respect to signings from prior years.

The major planned income variances from the 2000 actual results are represented by higher net interest income due to the planned increased loans and liquidity portfolios and increased insurance premiums and fees. In addition, provision for credit losses is expected to decline due to a general increase in investment grade signings. Administrative expenses are expected to increase by $38 million in 2001, due primarily to a larger workforce and investments in technology.

	2001 Corporate Plan	2000 Actual Results	2000 Corporate Plan
Volume			
($ in billions)			
Financing	7.8	7.7	6.0
Contract insurance and bonding	3.8	4.2	2.7
Political risk insurance	3.5	3.2	2.8
Short-term insurance	29.9	30.3	30.5
Total	$45.0	$45.4	$42.0
Balance Sheet			
($ in millions)			
Assets			
Loans receivable	20,840	20,586	20,461
Allowance for losses on loans	2,556	2,700	2,738
Net loans receivable	18,284	17,886	17,723
Cash and marketable securities	2,317	2,187	3,416
Investments	180	170	166
Accrued interest and other assets	557	494	485
Derivative related amounts	579	253	599
Total Assets	$21,917	$20,990	$22,389
Liabilities and Shareholder's Equity			
Loans payable	18,080	17,583	18,732
Accrued interest and other liabilities	782	559	935
Allowance for claims on insurance and guarantees	568	569	686
Derivative related amounts	139	287	144
Total Liabilities	19,569	18,998	20,497
Share capital	983	983	983
Retained earnings	1,365	1,009	909
Shareholder's Equity	2,348	1,992	1,892
Total Liabilities and Shareholder's Equity	$21,917	$20,990	$22,389
Income Statement			
($ in millions)			
Interest income			
Loans	1,788	1,585	1,521
Marketable securities and investments	161	197	204
	1,949	1,782	1,725
Interest expense	1,180	1,066	1,038
Net interest income	769	716	687
Insurance premiums and guarantee fees	172	144	151
Provision for credit losses	491	549	645
Income after provision for credit losses	450	311	193
Administrative expenses	155	117	119
Net income	$295	$194	$74

RISK MANAGEMENT

CREDIT RISK | is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

MARKET RISK | is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. EDC has policies in place to limit its exposure to interest rate and foreign exchange movements.

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health.

LIQUIDITY RISK | is the risk that funds will not be available to meet the Corporation's obligations. EDC has treasury risk management policies in place to ensure that sufficient liquidity is retained to meet operating requirements and to maintain stability in short-term borrowing programs.

OPERATIONAL RISK | is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies, procedures and an internal audit department in place to minimize the possibility of material losses as a result of operational risk.

Each of the above risks is discussed in greater detail in sequence on the following pages.

Credit Risk

Credit risk represents the most substantial risk of financial loss to EDC. As at December 31, 2000, EDC has $43.9 billion of exposure to credit risk, as detailed on the next page. The Corporation is continuously reviewing its processes and systems in order to improve the administration and assessment of credit risk on all agreements associated with financing, insurance and treasury transactions. The Corporation is committed to ensuring that its origination and portfolio management policies and methodologies embody relevant best-in-class practices within the private sector and the public sector.

EDC manages the credit risk associated with its exposures at the portfolio level and the transaction level.

PORTFOLIO CREDIT RISK MANAGEMENT

Substantial progress has been achieved in developing and implementing a new credit risk management framework in 2000. The framework establishes the approval responsibilities of the Board of Directors, the oversight responsibilities of the Risk Management Committee of the Board of Directors, and the operational, approval and reporting responsibilities of Management. Among other things, the framework includes new and improved methodologies to determine country risk limits, industry risk limits and commercial obligor risk limits. All limits are determined based on the Corporation's capital base and risk factors associated with the exposure. The framework also provides for reporting of management transaction approvals, risk aggregations and compliance with the framework to the Board of Directors on a regular basis.

Country risk is continually reviewed by the Economics Department to take into consideration any changes in the world environment or the specific country. The Economics Department risk rates all countries, and all other things being equal, the higher the country risk, the lower the country limit.

Commercial obligor risk is regularly reviewed by the Corporation to take into consideration any changes that may affect the credit risk of the commercial obligor. The Corporation risk rates all commercial obligors, and all other things being equal, the higher the risk, the lower the commercial obligor risk limit.

It is Management's responsibility to operate the Corporation's credit risk exposures within the limits established by the Board. Any exceptions to limits require specific Board approval.

▸ SPECIFIC TRANSACTION RISK MANAGEMENT

In order to better understand the credit risk associated with EDC's individual credit commitments, the Corporation is organized into business teams along industry sectors. The business teams are responsible for the proper due diligence associated with each credit commitment. Within the business team structure, each individual has a delegation of approval authority based on relevant expertise and experience. Every credit commitment (except for very small amounts) requires the approval of at least two individuals with delegated approval authority.

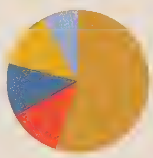
Significant potential transactions with respect to credit risk and structure are reviewed for endorsement by the Risk Management Office prior to authorization. The Risk Management Office reports to the Vice-President of Risk Management. Very significant transactions with respect to credit risk and structure are also reviewed for endorsement by the Executive Risk Management Committee. The Executive Risk Management Committee comprises the following seven corporate officers: the President; the Executive Vice-President of Medium- and Long-term Financial Services; the Senior Vice-President and Chief Financial Officer; the Senior Vice-President, Legal Services, and Secretary; the Senior Vice-President of Short-term Financial Services; the Senior Vice-President of Business Development; and the Vice-President of Risk Management. In addition, certain very significant transactions with respect to credit risk and structure require the approval of the Board of Directors.

The Corporation actively monitors and manages the credit risks associated with transactions post-commitment to ensure that where there is a change in the risk, the implications are assessed and managed. Where negative changes in risk have occurred, the transactions are downgraded, allowances adjusted and plans to mitigate potential losses put into place.

Concentration of Exposure

The following table reflects the major concentrations of total commercial and sovereign exposure in the geographic market and country where the risk resided for all operations at the end of 2000.

EXPOSURE BY GEOGRAPHIC MARKET



** Includes Mexico*

Country	Loans Portfolio: Gross Loans Receivable	Loans Portfolio: Undisbursed Commitments	Insurance Policies and Guarantees Outstanding: Short-term	Insurance Policies and Guarantees Outstanding: Medium-term	Investments and Derivative Financial Instruments*	2000 Exposure	
($ in millions)						$	%
U.S.	7,910	1,284	3,210	1,589	703	14,696	33
Canada	1,999**	1,043**	856	1,884***	1,386	7,168	16
China	1,089	650	137	180	–	2,056	5
Brazil	790	157	362	305	–	1,614	4
United Kingdom	876	167	163	111	264	1,581	4
Mexico	1,029	93	202	246	–	1,570	3
Peru	832	138	9	308	–	1,287	3
Indonesia	939	52	36	41	–	1,068	2
Venezuela	593	123	35	18	–	769	2
Turkey	343	46	195	155	–	739	2
Other****	5,623	1,072	2,200	2,160	308	11,363	26
Total	$22,023	$4,825	$7,405	$6,997	$2,661	$43,911	100%

* *Investments include amounts represented by cash, marketable securities and investments.*

** *Includes the impact of one transaction signed in 1997 for $1,497 million with recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.*

*** *Includes $1,782 million of surety bond insurance. A total of 57% of the exports insured in the surety bond program are to the United States. The balance represents exports to other countries.*

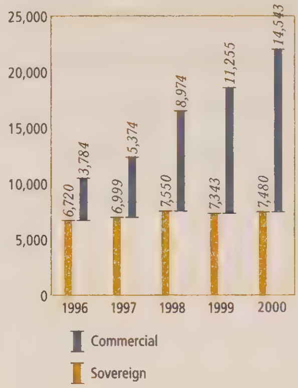
**** *Includes 153 countries with total exposure ranging from $1 million to $644 million.*

▸ CONCENTRATION OF EXPOSURE – LOANS PORTFOLIO

Over the last four years, gross loans receivable have increased at an average yearly rate of 21%, moving from $10,504 million in 1996 to $22,023 million in 2000. This increase is due to the continued record growth in commercial financing, ranging from $3,784 million in 1996 to $14,543 million in 2000. Over the last four years, commercial loans have increased by an average yearly rate of 41%, while sovereign loans have experienced only 3% growth over the same period.

The mix between commercial and sovereign loans has continued to shift in favour of commercial loans. In 1996, the ratio of commercial to sovereign was 36:64, while in 2000 it shifted to 66:34. In 2000, new signing volume to commercial borrowers accounted for 96% of total signing volume.

GROSS LOANS RECEIVABLE
($ in millions)



Performing Commercial Loans

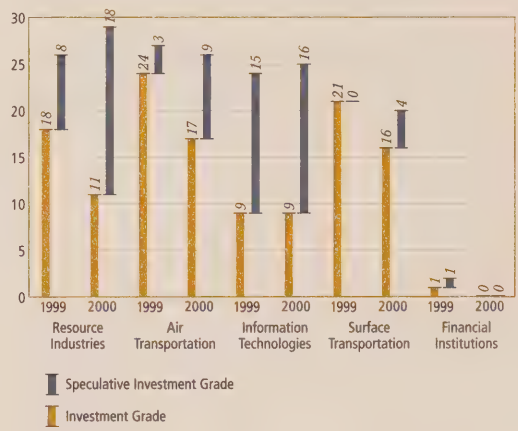
As depicted, the commercial exposure in terms of industry sector mix has remained relatively unchanged compared with that of 1999.

Five counterparties comprising the Corporation's largest commercial exposure balances collectively represent $4,538 million, or 26%, of the total performing commercial exposure. Of these five, one is within the Surface Transportation sector, comprising $1,615 million, or 9%. Two counterparties are within the Air Transportation sector, comprising $1,569, or 9%. The remaining two counterparties are within the Information Technology sector, comprising $1,355 million or 8%.

The ratio of speculative grade loans to total commercial exposure has increased significantly for loans in the Resource Industries, Air Transportation and Surface Transportation sectors in 2000. This is the result of various credit rating downgrades from BBB* or above to BB* or below in each of these sectors.

* *Moody's long-term rating*

PERFORMING COMMERCIAL LOANS
(%)



	Gross Receivable	Undisbursed Commitments	Total Exposure	2000	Gross Receivable	Undisbursed Commitments	Total Exposure	1999
($ in millions)			$	%			$	%
Resource Industries	3,804	1,133	4,937	29	2,677	1,054	3,731	26
Air Transportation	4,226	336	4,562	26	3,326	526	3,852	27
Information Technologies	3,183	1,176	4,359	25	2,565	831	3,396	24
Surface Transportation	3,169	373	3,542	20	2,132	779	2,911	21
Financial Institutions	3	–	3	–	307	11	318	2
Total	$14,385	$3,018	$17,403	100%	$11,007	$3,201	$14,208	100%

Performing Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

($ in millions)	Gross Receivable	Undisbursed Commitments	Total Exposure 2000 $	%		Gross Receivable	Undisbursed Commitments	Total Exposure 1999 $	%
China	1,066	643	1,709	21	China	1,113	564	1,677	20
Canada	879	552	1,431	18	Canada	655	896	1,551	19
Peru	630	–	630	8	Peru	625	–	625	7
Algeria	544	33	577	7	Venezuela	473	122	595	7
Venezuela	425	123	548	6	Algeria	527	28	555	7
Other	2,771	436	3,207	40	Other	2,890	489	3,379	40
Total	$6,315	$1,787	$8,102	100%	Total	$6,283	$2,099	$8,382	100%

The sovereign portfolio as a whole has decreased from 1999 by 3%. Generally, the level of exposure has not increased for sovereign counterparties.

The shift from public sector financing to private sector is demonstrated in the minimal increase in the Corporation's sovereign loan portfolio. As older loans are repaid, not enough new loans are signed to replace them. In 2000, 4% of signing volume was to sovereign borrowers, compared with 10% in 1999.

▸ CONCENTRATION OF EXPOSURE – INSURANCE PORTFOLIO

Insurance Policies and Guarantees Outstanding

($ in millions)	2000	1999
Short-term	7,405	7,147
Medium-term	6,997	5,574
Total	$14,402	$12,721

At December 31, 2000, the concentration by policy term has remained relatively unchanged from 1999 levels.

INSURANCE POLICIES AND LOAN GUARANTEES OUTSTANDING BY POLICY TERM

Short-term Program

Size Concentration

During 2000, the short-term program supported 4,229 customers. In terms of total insured volume, the top five customers represented 15% of the total 2000 insured volume (1999 – 14%). The largest number of buyers in terms of aggregate credit authorizations is within the $1,000 to $500,000 range and has remained relatively unchanged from 1999 levels in terms of overall concentration.

The following table shows the number of buyers and total exposure for the year classified by exposure size within the short-term portfolio:

$ Value of Exposure *($ in thousands)*	2000 Total Number of Buyers	2000 Exposure ($ in millions)	1999 Total Number of Buyers	1999 Exposure ($ in millions)
1–500	46,659	5,486	41,050	4,624
501–2,000	4,048	3,873	3,957	3,746
2,001–5,000	985	3,061	987	2,985
5,001–10,000	350	2,442	326	2,293
10,001 and over	256	5,711	257	5,688
Total	52,298	$20,573	46,577	$19,336

Country Concentration

The largest concentrations within the short-term program are in the following countries:

	2000			1999	
($ in millions)	$	%		$	%
U.S.	3,210	43	U.S.	2,821	39
Canada	856	12	Canada	1,036	15
Brazil	362	5	Brazil	419	6
Iran	267	4	Mexico	279	4
Japan	259	3	Iran	243	3
Other*	2,451	33	Other*	2,349	33
Total	$7,405	100%	Total	$7,147	100%

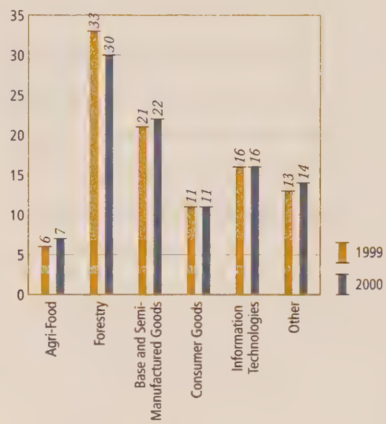
* *Includes 138 countries with concentrations ranging from $0.001 million to $213 million (1999 – 140 countries ranging from $0.001 million to $233 million).*

Industry Concentration

The insurance policies outstanding in terms of industry concentration are as follows:

INSURANCE POLICIES OUTSTANDING BY INDUSTRY SECTOR

(%)



Medium-term Insurance Program and Guarantees

Size Concentration

During 2000, 381 customers were supported in the medium-term program (1999 – 378). The top five customers in terms of insurance policies and guarantees outstanding represented 59% of the 2000 medium-term insurance policies and guarantees outstanding (1999 – 60%). The largest exposure within the top five customers is $2,631 million. The five largest policies and loan guarantees as at December 31, 2000, represent 25% (1999 – 32%) of the total medium-term policies and guarantees outstanding.

Country Concentration

As at December 31, 2000, the medium-term insurance policies and guarantees outstanding portfolio comprised 1,688 transactions in 124 countries (1999 – 1,582 transactions in 124 countries) with an average exposure of $4.1 million (1999 – $3.5 million).

The largest insurance policies and guarantees outstanding in terms of where the risk resides within the medium-term portfolio are in the following countries:

	2000			1999	
($ in millions)	$	%		$	%
Canada	1,884	27	U.S.	1,367	24
U.S.	1,589	23	Canada	1,102	20
Peru	308	4	Brazil	281	5
Brazil	305	4	Colombia	215	4
Mexico	246	4	Israel	214	4
Other*	2,665	38	Other*	2,395	43
Total	$6,997	100%	Total	$5,574	100%

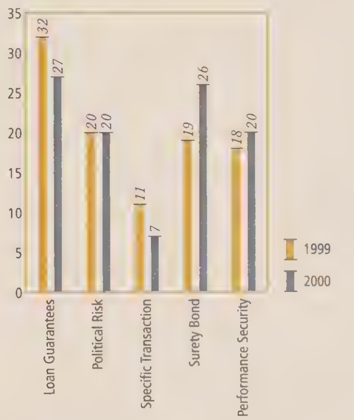
* *Includes 119 countries with concentrations ranging from $0.004 million to $223 million (1999 – 113 countries ranging from $0.012 million to $207 million).*

Exposure in Canada is made up largely ($1,782 million) of surety bond insurance (1999 – $1,055 million), 57% of which is to support exports to the United States (1999 – 79%). Of the total concentration in the United States, $1,517 million (81%) represents guarantees to support loan agreements.

Program Concentration

Total medium-term exposure has increased by $1,423 million or 26% over 1999 results. Surety bond and performance security program exposures have increased by $727 million and $351 million over 1999 results.

CONCENTRATION BY PROGRAM
(%)



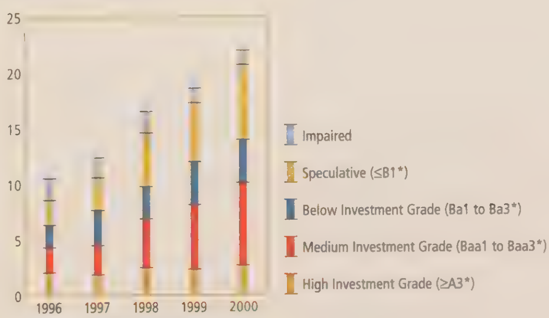
Credit Quality

▸ CREDIT QUALITY – LOANS

The performing gross loans receivable grew by 20% in 2000 to $20,700 million from the 1999 level of $17,290 million. The major factor contributing to this increase is the continued growth in commercial signing volume, with sovereign signings remaining close to 1999 levels. Risk concentration remains comparable to 1999, with growth in medium and speculative grade financing.

Impaired loans as a percentage of total gross loans receivable declined from 7% in 1999 to 6% in 2000. During the year, six loans totalling $92 million were reclassified as impaired: three commercial totalling $43 million and three sovereign totalling $49 million. Six commercial loans totalling $105 million were written off against the allowance for loan losses during the year. No loans were written off in 1999.

GROSS LOANS RECEIVABLE
($ in billions)



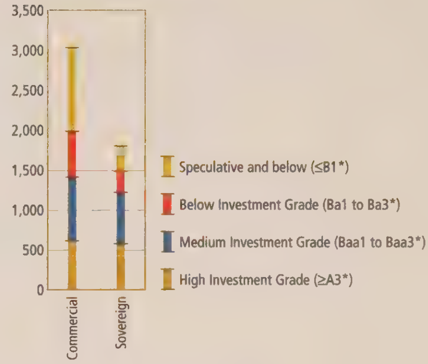
* *Moody's long-term rating*

Loan Commitments

The amount of commercial undisbursed commitments has declined by 7%, totalling $3,239 million in 1999 and $3,028 million in 2000. The mix of credit grades has remained relatively constant, with the below investment grade and speculative grades declining to 54% of the total from 61% last year.

In the sovereign portfolio, the amount of undisbursed commitments has declined 20%, totalling $2,106 million in 1999 and $1,797 million in 2000. The mix of credit grades in the sovereign portfolio has remained mostly unchanged from the previous year. Undisbursed commitments in the below investment grade and speculative grade categories have risen to 32% in 2000 from 30% in 1999.

LOAN COMMITMENTS
($ in millions)



* *Moody's long-term rating*

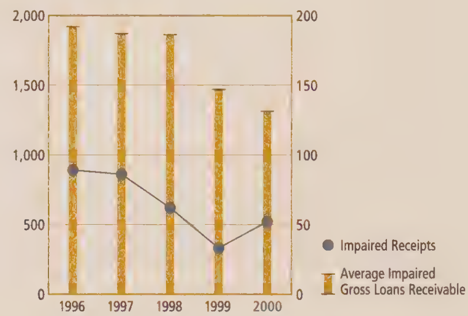
The following table profiles the committed undisbursed loan balances by credit-rating grade:

($ in millions)	2000						1999	
Provision Category*	Commercial	%	Sovereign	%	Total	%	Total	%
High investment grade (≥A3)	608	20	572	32	1,180	24	1,413	26
Medium investment grade (Baa1 to Baa3)	797	26	644	36	1,441	30	1,306	25
Below investment grade (Ba1 to Ba3)	574	19	264	15	838	18	1,244	23
Speculative and below (≤B1)	1,049	35	317	17	1,366	28	1,382	26
Total	$3,028	100%	$1,797	100%	$4,825	100%	$5,345	100%

* *Moody's long-term rating*

Impaired Loans

IMPAIRED RECEIPTS TO AVERAGE GROSS LOANS RECEIVABLE
($ in millions)



($ in millions)	2000	1999	1998	1997	1996
Average impaired gross loans receivable	1,311	1,468	1,861	1,869	1,919
Impaired receipts (principal and interest)	52	33	62	86	89
Cash flow as a percentage of average receivable	3.97%	2.25%	3.33%	4.60%	4.64%

In 2000, two commercial loans in Yugoslavia totalling $5 million, three sovereign loans in Pakistan totalling $49 million, and one commercial loan in Canada totalling $38 million were reclassified as impaired. No loans were reclassified as performing.

Impaired loans to six commercial borrowers totalling $105 million were written off against the allowance for loan losses. These loans were fully provided for by the allowance for loan losses in previous years and required no additional provision in 2000.

Payments received from the Government of Canada for debt relief for sovereign impaired loans totalled $12 million in 2000 (1999 – $59 million) and related to Cameroon. These amounts are not included as receipts from borrower countries in the previous chart.

The following cash flows pertain to impaired loan debtors and represent, in the case of non-commercial receipts, the long-term efforts of multilateral rescheduling arrangements through the Paris Club. The largest receipts for impaired loans including contractual principal and interest from borrowers were as noted:

($ in millions)	2000		1999
South Korea (commercial)	30	Cameroon	13
Cameroon	9	Peru (impaired status only)	7
Yugoslavia	7	Venezuela	7
Canada (commercial)	5	Other	6
Other	1		
Total	$52	Total	$33

CREDIT QUALITY – INSURANCE

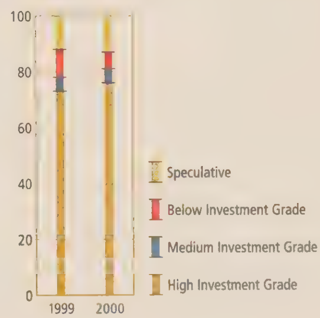
The Corporation rates country risk on a scale from 1 to 4 (high investment grade to speculative grade).

Short-term

Within the short-term programs, the comparative spread of risk in terms of country risk classification has remained relatively unchanged from 1999 levels. The largest balance of short-term contingent liabilities is within category 1 countries, which represent $5,634 million, or 76% of total short-term contingent liabilities.

INSURANCE POLICIES OUTSTANDING – SHORT-TERM

(%)



Medium-term

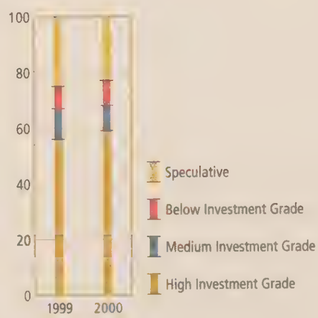
Within the medium-term programs, there was a 3% increase in high investment grade concentration in 2000 compared with 1999 levels, as well as a 3% decrease in speculative grade concentration in 2000 over 1999 concentrations.

The increase in high investment grade concentration in 2000 was partly the result of an overall increase of 7% in exposure in Canada, due to the increased use of surety bond insurance in support of exporters.

The decrease in speculative grade concentration in 2000 within the medium-term programs was the result of decreased concentrations in Brazil and Turkey.

INSURANCE POLICIES OUTSTANDING – MEDIUM-TERM

(%)



Claims Experience

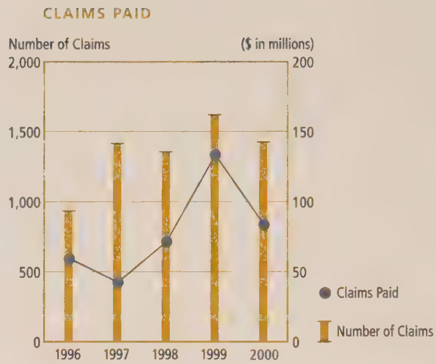
($ in millions)	2000	1999
Claims paid	84	134
Claims recovered	30	17
Net claims	$54	$117

In 2000, the Corporation paid 1,427 claims in 73 countries. During the same period in 1999, the Corporation paid 1,622 claims in 66 countries.

The decrease in claim payments was largely due to a series of market crises such as Russia's debt default and Brazil's currency devaluation, which affected the 1999 results but were not a factor in 2000.

There was a 37% decrease in the dollar value of claim payments to $84 million in 2000 and a decrease of 12% in the number of claims paid from 1999.

The claims paid as a percentage of insurance policies and guarantees outstanding over the past five years has averaged 0.71%.



Size Concentration

($ in millions)	2000 Claims Paid $	2000 Number of Claims Paid	2000 Claims Recovered $	1999 Claims Paid $	1999 Number of Claims Paid	1999 Claims Recovered $
$0–$100,000	19	1,304	28	20	1,472	11
$100,001–$1 million	28	112	1	34	124	2
Over $1 million	37	11	1	80	26	4
Total	$84	1,427	$30	$134	1,622	$17

Due to the number of larger claim payments (over $1 million) paid in 1999, the average amount paid per claim decreased to $59 thousand from $83 thousand in 1999.

Insurance Claims Paid by Geographic Market

($ in millions)	2000					1999				
Geographic Market	Default	Insolvency	Transfer	Other	Total	Default	Insolvency	Transfer	Other	Total
Middle East/Africa	1	–	–	–	1	1	1	–	1	3
Asia/Pacific	11	1	–	1	13	2	22	–	5	29
Europe	5	3	–	–	8	8	4	22	7	41
South America/ Central America	19	–	–	1	20	10	7	–	–	17
North America/ Caribbean*	28	10	–	4	42	23	17	–	4	44
Total	$64	$14	–	$6	$84	$44	$51	$22	$17	$134

** Includes Mexico*

Default Risk

Default risk is defined as the failure of the buyer to pay by the due date all or any part of the gross invoice value of goods delivered to and accepted by the buyer.

The increase in claim payments in Asia/Pacific for default is mainly due to an increase in claim payments for losses in India ($9 million).

Default claim payments on behalf of losses in Ecuador ($14 million) offset by a decrease in payments for losses in Brazil ($3 million) and Venezuela ($2 million) account for most of the increase in claim payments in South America.

Insolvency Risk

Insolvency of the customer occurs when the customer has reorganized his financial affairs under the bankruptcy or insolvency laws of his country.

The $21 million decrease from 1999 in insolvency claims paid in Asia/Pacific is largely due to a decrease in payments for losses in Hong Kong ($18 million) and China ($5 million), offset by an increase in payments for losses in Japan ($1 million).

Claim payments made in 1999 on behalf of losses in Colombia ($3 million), Chile and Brazil ($2 million each) account for the decrease in insolvency claim payments in South America.

The overall decrease in default and insolvency claims paid within North America/Caribbean is mainly due to increases in Canada ($3 million), offset by a decrease in the United States ($5 million).

Transfer Risk

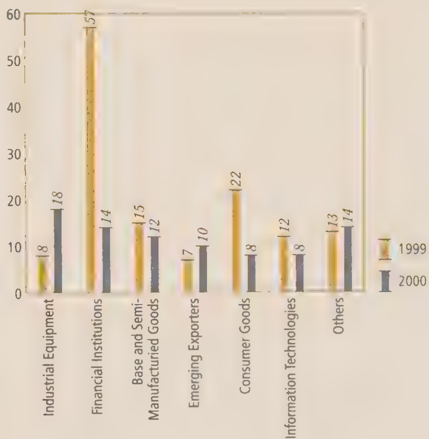
Transfer risk is described as a law or any governmental directive in the customer's country that restricts or prevents the transfer of currency, and as a consequence prevents the customer from making any payment required to the exporter.

The $22 million in claim payments made in Europe for transfer risk in 1999 is due to the failure of Russian banks to meet their obligations.

Industry Concentration

Within the Financial Institutions industry sector, 8 claims were paid in 2000, totalling $14 million, compared with 35 claims totalling $57 million in 1999. The claims paid in 2000 are mainly due to losses in Ecuador ($13 million). The majority of the claims paid in 1999 were due to losses in Russia ($22 million) and Hong Kong ($18 million).

CLAIMS PAID BY INDUSTRY SECTOR
($ in millions)

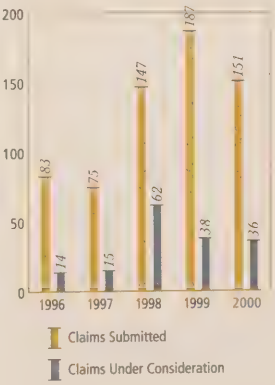


Claims Submitted

At the end of 2000, the value of the claims requests that were still under consideration was $36 million (1999 – $38 million). The five largest concentrations are related to claims pending for losses in Pakistan ($14 million), the United States ($11 million), Canada ($4 million), Greece ($2 million) and Argentina ($1 million).

The value of claims submitted has decreased from $187 million in 1999 to $151 million in 2000. The top five countries with the largest claims submitted in 2000 were the United States ($59 million), Canada ($16 million), Ecuador ($14 million), India ($10 million) and Chile ($9 million).

CLAIMS SUBMITTED AND UNDER CONSIDERATION
($ in millions)



▸ CREDIT QUALITY – INVESTMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Treasury credit risk is the credit risk associated with EDC's holdings of interest-bearing deposits, marketable securities, investments and derivative financial instruments. EDC uses derivative financial instruments to convert market risk to credit risk. For interest-bearing deposits, marketable securities and investments, the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. EDC's activities with respect to derivative financial instruments will be discussed further in the market risk section. The Corporation's risk management policies limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded and in such cases management will determine appropriate action.

The following table provides a breakdown, by credit rating, of EDC's treasury credit risk exposure.

($ in millions)

	Remaining Term to Maturity				
Credit Rating*	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Aaa	362	65	1	16	444
Aa1	594	97	41	31	763
Aa2	354	20	59	12	445
Aa3	679	124	21	72	896
A1	51	37	–	–	88
A2	25	–	–	–	25
Total	$2,065	$343	$122	$131	$2,661

* *Moody's long-term rating*

Allowances

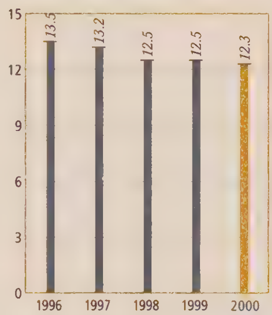
▸ ALLOWANCE FOR LOSSES ON LOANS

EDC classifies its loan assets into five categories. The first four categories represent groups of performing loans that share the same credit rating. The Corporation categorizes its performing commercial and sovereign loans using a rating system of 1 to 4 (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. The fifth category represents loans evaluated for impairment on a loan-by-loan basis and gives rise to the specific allowance, which is based on discounted cash flows.

EDC's loan loss provision has declined as a percentage of gross loans receivable at 12.3%. The decrease of 0.2% from 1999 was caused by a higher proportion of short-term financing in 2000, representing loans that mature in less than one year. If the increase in short-term financing had not occurred, the allowance percentage would have remained consistent with the two prior years.

ALLOWANCE FOR LOSSES ON LOANS AS A PERCENTAGE OF GROSS LOANS RECEIVABLE

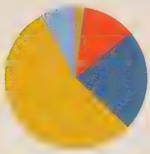
(%)



Commercial Allowance

The Corporation uses external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When external ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate credit classification. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool.

COMMERCIAL ALLOWANCE
BY LOAN CATEGORY
(%)



The 2000 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)		2000			1999	
Provision Category*	Allowance	Exposure**	%	Allowance	Exposure**	%
High investment grade (≥A3)	27	1,743	2	25	1,575	2
Medium investment grade (Baa1 to Baa3)	212	5,904	4	167	4,265	4
Below investment grade (Ba1 to Ba3)	420	3,014	14	311	2,223	14
Speculative grade (≤B1)	969	3,754	26	764	2,944	26
Impaired	138	151	91	211	242	87
Total	$1,766	$14,566	12%	$1,478	$11,249	13%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The commercial allowance increased by 20% over the prior year, which is lower than the 29% growth in commercial exposure. This was primarily caused by a significant increase in medium investment grade loans, which are provisioned at 4%, lower than the average of 12%. Loans of higher credit quality have a lower impact on the amount of allowance provided based on lower projected default rates.

The allowance required for impaired loans decreased to $138 million from $211 million in 1999. This decrease can be partly attributed to the write-off of six commercial loans totalling $105 million. Offsetting this were two loans totalling $5 million to borrowers in Yugoslavia and one commercial loan totalling $38 million to a borrower in Canada that were reclassified as impaired.

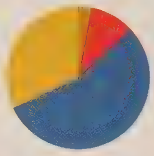
The following table outlines the changes to the allowance for losses on commercial loans:

($ in millions)	2000	1999
Balance at beginning of year	$1,478	$1,107
Portfolio growth	270	288
Credit migration	36	70
Increase due to additional impaired loans	24	81
Write-offs	(105)	–
Foreign exchange	63	(68)
Balance at end of year	$1,766	$1,478

Sovereign Allowance

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to provide a rating. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

SOVEREIGN ALLOWANCE BY LOAN CATEGORY
(%)



The 2000 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)	2000			1999		
Provision Category*	Allowance	Exposure**	%	Allowance	Exposure**	%
High investment grade (≥A3)	1	954	–	1	747	–
Medium investment grade (Baa1 to Baa3)	30	1,502	2	29	1,454	2
Below investment grade (Ba1 to Ba3)	93	928	10	116	1,158	10
Speculative grade (≤B1)	517	2,352	22	509	2,315	22
Impaired	293	556	53	191	493	39
Total	$934	$6,292	15%	$846	$6,167	14%

* *Moody's long-term rating*
** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The level of provisioning on sovereign impaired loans has increased by $102 million from 1999. This resulted partly from a revaluation of impaired loans to Cameroon, Ivory Coast and Russia, which increased the allowance by $52 million. Lower repayments from these countries in 2000 have caused the Corporation to increase the allowance based on a lower expectation of future cash flows. As well, three sovereign loans to Pakistan totalling $49 million were made impaired in the year, increasing the sovereign impaired allowance by $44 million.

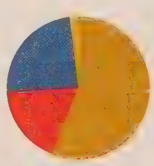
The following table outlines the effect of these changes on the allowance for losses on sovereign loans:

($ in millions)	2000	1999
Balance at beginning of year	$846	$953
Portfolio growth	(24)	(2)
Credit migration	(11)	20
Revaluation of impaired loans	86	(60)
Foreign exchange	37	(65)
Balance at end of year	$934	$846

ALLOWANCE FOR CLAIMS ON INSURANCE AND GUARANTEES

As at December 31, 2000, the allowance for claims on insurance and guarantees is $569 million, an increase of $115 million or 25% over the 1999 allowance of $454 million. The increase in the allowance for claims on insurance and guarantees is primarily attributable to the continued growth in both the short-term and the medium-term insurance portfolios. During 2000, $168 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. This was offset by charges to the allowance of $62 million, due to the re-evaluation of recoverable claims paid and claims expenses for $6 million. The allowance also increased by $15 million due to foreign exchange fluctuation.

UNRECOVERABLE PORTION OF CLAIMS PAID BY GEOGRAPHIC MARKET – 2000
(%)

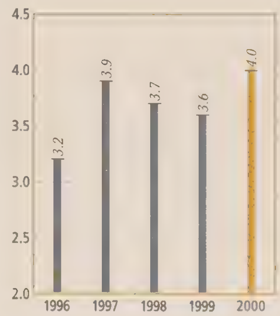


** Includes Mexico*

Ninety-four per cent of the total unrecoverable portion of claims paid amount was in the short-term program.

The allowance as a percentage of insurance policies and loan guarantees outstanding has remained within a range of 3.2% to 4.0%, averaging 3.7% over the last five years. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (frequency of claim and severity of loss) relevant for each insurance program separately and is derived from the Corporation's own experience. Moreover, the allowance includes a provision for adverse deviation such that it will be sufficient to cover all expected losses 19 times out of 20. This year's increase in the allowance results from growth in most insurance programs as well as a corresponding growth in the claims under consideration and incurred but not reported claims.

ALLOWANCE AS A PERCENTAGE OF INSURANCE POLICIES AND LOAN GUARANTEES OUTSTANDING
(%)



CAPITALIZATION

The gross assets of the Corporation are $25.1 billion (1999 – $23.2 billion), which are supported by shareholder's equity and allowances of $5.3 billion (1999 – $4.6 billion). At this level of capitalization, 21% of assets do not require external debt financing (1999 – 20%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	2000	1999	1998	1997	1996
Shareholder's equity:					
Capital	**983**	983	983	983	983
Retained earnings	**1,009**	815	697	562	434
Subtotal	**1,992**	1,798	1,680	1,545	1,417
Allowances	**3,289**	2,798	2,516	1,984	1,683
Total capitalization	**$5,281**	$4,596	$4,196	$3,529	$3,100

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. The Corporation manages its exposure to market risk using limits developed in consultation with the Department of Finance and approved by the Risk Management Committee of the Board of Directors. Capital Markets meets weekly and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Risk Management Committee of the Board, and to the Board of Directors.

ASSET/LIABILITY MANAGEMENT

The following table provides a breakdown of EDC's asset portfolios.

($ in millions)	Total	%	Canadian Dollars	U.S. Dollars	Other Currencies
Floating rate portfolio	12,895	53	1,174	10,947	774
Fixed rate portfolio	9,128	38	214	8,428	486
Investments	2,171	9	981	1,169	21

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities accordingly but must balance the need to match its assets and liabilities with opportunities to obtain sub-LIBOR funding. In doing so, EDC may

expose itself to interest rate and foreign exchange risk. These asset/liability gaps are measured against policy limits and reported to senior management on a monthly basis.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value and net interest income to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities or interest rate resets between assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and managed within operational guidelines and Board-approved policies. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income and economic value. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC is currently within its risk management guidelines and policies with respect to its exposure to interest rate and foreign exchange risk.

EDC continues to improve analytical techniques, information systems and reporting to enhance the evaluation and control of risk. The Market Risk Management Policies are reviewed annually with the Corporation's Board of Directors.

DERIVATIVES

EDC uses a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures and options.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Market Risk Management department formally reviews EDC derivative financial instrument transactions at time of inception, and on an ongoing basis, to provide an independent verification on the valuation of transaction structures, and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Market Risk Management department to the Treasurer and the Senior Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Market Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low-cost floating rate U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than invest directly in a three-month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three-month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet current and future cash outflow requirements. Pursuant to its risk management policies, EDC must maintain enough liquidity to meet the following six months' net cash outflow requirements without accessing the capital markets (i.e., bond issuance). This is ensured by measuring and reporting to senior management EDC's actual liquidity position against this minimum limit on a monthly basis.

EDC maintains liquidity through a variety of methods:

Access to Commercial Paper Markets: In the course of EDC's normal activities, the Corporation's commercial paper programs provide it with the necessary liquidity to meet its cash requirements on a daily basis. During 2000, the average balance of short-term debt was $3,574 million (1999 – $3,429 million) with a turnover of 15 times (1999 – 21 times).

Cash and Marketable Securities: EDC holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. During 2000, the average balance of cash and marketable securities was $3,215 million (1999 – $2,758 million).

Standby Credit Facility: As a contingency, EDC also maintains a US$2 billion standby revolving credit facility to further ensure its liquidity. To date, it has not been necessary to use this facility.

CREDIT RATINGS

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

EDC has the following credit ratings:

	Domestic		Foreign Currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P-1	Aa1	P-1
Standard & Poors	AAA	A-1+	AA+	A-1+
Japan Credit Rating Agency	AAA	–	AAA	–

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

Financial Reporting Responsibility

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial, management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and that the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Peter Allen
Senior Vice-President and Chief Financial Officer

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 20 to the Corporation's consolidated financial statements, and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL OF CANADA **VÉRIFICATEUR GÉNÉRAL DU CANADA**

To the Minister for International Trade

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 2000 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly owned subsidiary.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 9, 2001

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

as at December 31, 2000

($ in millions)	**2000**	1999
Assets		
Cash and Investments		
Cash and cash equivalents	**104**	778
Marketable securities (note 3)	**2,083**	2,471
Investments (note 4)	**170**	168
Accrued interest	**18**	25
	2,375	3,442
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	**17,886**	14,844
Accrued interest and fees	**344**	291
	18,230	15,135
Other		
Recoverable insurance claims (note 10)	**74**	77
Derivative related amounts	**253**	807
Other assets	**58**	53
	385	937
Total Assets	**$20,990**	$19,514
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	**17,583**	16,325
Accrued interest	**454**	698
	18,037	17,023
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	**84**	92
Deferred insurance premiums	**21**	24
Derivative related amounts	**287**	123
Allowance for claims on insurance and guarantees (note 10)	**569**	454
	961	693
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	**983**	983
Retained earnings	**1,009**	815
	1,992	1,798
Total Liabilities and Shareholder's Equity	**$20,990**	$19,514

See accompanying notes.

Approved by the Board of Directors

J. Pattillo
Director

A. Ian Gillespie
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 2000

($ in millions)	2000	1999
Interest income		
Loans	1,585	1,258
Marketable securities and investments	197	146
	1,782	1,404
Interest expense	1,066	796
Net Interest Income	716	608
Insurance Premiums and Guarantee Fees	144	133
Provision for Credit Losses (note 11)	549	523
Income after provision for credit losses	311	218
Administrative Expenses	117	100
Net Income	194	118
Retained Earnings		
Beginning of year	815	697
End of year	$1,009	$815

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2000

($ in millions)	**2000**	1999
Operating Activities		
Net income	**194**	118
Items not affecting cash and cash equivalents		
Provision for credit losses	**549**	523
Net increase in accrued interest and fees receivable	**(242)**	(253)
Net (decrease)/increase in accrued interest and fees payable	**(237)**	286
Net increase/(decrease) in derivative related amounts	**356**	(212)
Other changes	**(62)**	(146)
Cash flows from operating activities	**558**	316
Investing Activities		
Loan disbursements	**(7,210)**	(6,374)
Loan repayments	**4,434**	3,380
Decrease/(increase) in marketable securities	**421**	(1,204)
(Increase)/decrease in investments	**(3)**	163
Cash flows used in investing activities	**(2,358)**	(4,035)
Financing Activities		
Issue of long-term loans payable	**4,889**	6,971
Repayment of long-term loans payable	**(3,173)**	(2,475)
Decrease in short-term loans payable	**(607)**	(60)
Cash flows from financing activities	**1,109**	4,436
Effect of exchange rate changes on cash and cash equivalents	**17**	(20)
Net (decrease)/increase in cash and cash equivalents	**(674)**	697
Cash and Cash Equivalents		
Beginning of year	**778**	81
End of year	**$104**	$778
Represented by		
Cash	**65**	18
Treasury bills	**39**	760
	$104	$778
Supplemental Information		
Cash paid for interest	**$1,069**	$708

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969, by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada that was last amended effective June 10, 1993. The Corporation is an agent of Her Majesty in right of Canada and was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. The Act as amended in 1993 gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Act provides that a review of the provisions and operation of the Act must be undertaken at specified regular intervals. The first such review was completed in 2000. The Government's response to the recommendations of the House Standing Committee on Foreign Affairs and International Trade and the Senate Committee on Banking, Trade and Commerce, in respect of the review, are currently being addressed or implemented. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act.*

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed an amount equal to 10 times the authorized capital of the Corporation, or such a greater amount as may be specified in an appropriation Act. During 1999, the limit was increased from $15 billion to $17.5 billion by an appropriation Act. As at December 31, 2000, the contingent liabilities are $14.4 billion (1999 – $12.7 billion).

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 2000, is $27.0 billion (1999 – $25.2 billion), against which borrowings amounted to $17.6 billion (1999 – $16.3 billion).

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities and Investments

Securities and investments that are being held to maturity are carried at cost. Gains and losses on these securities and investments are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security or investment carried at cost, the security or investment would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in marketable securities and investment interest income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue, and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired, but not recognized for financial statement purposes. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with

the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred loan revenue, comprising exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans (note 7) and the allowance for claims on insurance and guarantees (note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated by discounting estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for losses on loans.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans that are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for losses on loans. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio. This evidence can exist as early as the time of disbursement.

Recoverable Insurance Claims

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for losses on loans. The related provision is recorded through the provision for credit losses.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods that generally reflect the exposures over the terms of the policies and are amortized over the life of the policies on a straight line basis. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where netting agreements exist, principal and accrued interest on contracts hedging long-term debt or marketable securities are aggregated by contract. Resulting receivable balances are recognized in other assets and resulting payable balances are recognized in other liabilities and deferred revenue. Derivative financial instruments hedging short-term loans payable are recognized in other assets or other liabilities and deferred revenue, according to their nature.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

Employee Benefits

Effective April 24, 2000, EDC implemented a defined benefit pension plan to provide retirement benefits to its employees. Pension costs are actuarially determined using the projected benefit method pro rated on services and management's best estimate assumptions. The latest valuation was completed by an independent actuary as at December 31, 2000. The discount rate used to determine the accrued benefit obligation was based on market rates for long-term high-quality bonds. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

The annual pension expense consists of the actuarially determined pension benefits for the current year's service; imputed interest on projected pension obligations net of interest earned on plan assets; and the amortization of actuarial gains or losses and other items over the average remaining service period of active employees expected to receive benefits under the plan. Actuarial gains or losses are amortized only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets.

The cumulative difference between the pension expense and funding contributions is included in Accounts payable and other credits.

The Corporation also provides other post-retirement benefits for employees including life insurance and health and dental care benefits. The cost of these benefits has been actuarially determined and is accrued for as earned by employees.

The Corporation has adopted the new standard issued by the Canadian Institute of Chartered Accountants (CICA) with respect to the recording and disclosing of employee benefits. The recommendations of the new standard are being applied prospectively.

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity as well as for the longer term. Temporary investments are intended to be held for a short period of time. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value.

($ in millions)			2000	1999
	Portfolio			
Issued or guaranteed by:	Investments	Temporary Investments	Total	Total
Canadian government*	397	–	397	528
Corporate	780	250	1,030	449
Financial institutions	561	80	641	1,480
Other sovereign	15	–	15	14
Total Marketable Securities	$1,753	$330	$2,083	$2,471

** Canadian government includes federal, provincial and municipal governments and Crown corporations.*

The table below shows yields on EDC's marketable securities and how derivative financial instruments have been used to manage interest rate and foreign currency exposures of the Corporation's investment portfolio.

($ in millions)				2000	1999
	Remaining Term to Maturity*				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Investment portfolio					
Fixed rate securities	250	226	45	521	686
Swap contracts	(66)	(106)	–	(172)	(202)
Subtotal	184	120	45	349	484
*Yield to maturity %**	*5.53*	*5.59*	*6.86*	*5.92*	*5.93*
Floating rate securities	1,186	10	36	1,232	1,314
Swap contracts	58	104	–	162	183
Subtotal	1,244	114	36	1,394	1,497
*Yield to reset %**				*6.38*	*5.55*
Total investment portfolio	1,428	234	81	1,743	1,981
Temporary investments					
Floating rate securities	330	–	–	330	471
Spot yield %				*5.73*	*5.18*
Value at purchase				*329*	*468*
Total	$1,758	$234	$81	$2,073	$2,452

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

Credit exposure for swap contracts is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts. Credit exposure for swap contracts held in the investment portfolio is included as part of note 16.

4. Investments

Investments comprise $121 million (1999 – $115 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and the Royal Canadian Mint, totalling $49 million (1999 – $53 million). EDC intends to hold these notes to maturity. The Royal Canadian Mint is a Crown corporation and is related to EDC as a result of common ownership. The investment with the Royal Canadian Mint was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)				2000	1999
	Remaining Term to Maturity*				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Fixed rate investments	4	8	37	49	53
Floating rate investments	121	–	–	121	115
Total Investments	125	8	37	170	$168
*Yield %**	*5.87*	*6.34*	*6.46*	*6.41*	*6.33*

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

▶ 5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	2000					1999				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	47	8.96	59	1.61	106	108	9.11	8	3.21	116
2000	–	–	–	–	–	855	8.34	2,155	1.58	3,010
2001	1,019	8.40	3,774	1.49	4,793	926	8.56	1,683	2.33	2,609
2002	764	8.32	1,382	1.92	2,146	675	8.47	1,091	1.83	1,766
2003	692	8.14	1,268	1.82	1,960	582	8.23	910	1.55	1,492
2004	691	7.96	1,127	1.83	1,818	566	8.00	747	1.60	1,313
2005	629	7.85	972	1.71	1,601	492	7.81	603	1.66	1,095
2006–2010	2,583	7.68	2,391	1.33	4,974	1,867	7.71	1,929	1.24	3,796
2011 and beyond	2,504	7.58	798	.81	3,302	1,350	7.70	743	0.86	2,093
Performing	8,929	7.68	11,771	1.49	20,700	7,421	7.81	9,869	1.58	17,290
Impaired (note 6)	199		1,124		1,323	176		1,132		1,308
Gross loans receivable	$9,128		$12,895		$22,023	$7,597		$11,001		$18,598
Less: Non-accrued capitalized interest on										
Impaired loans (note 6)					616					573
Performing loans*					549					609
Loans receivable					20,858					17,416
Less: Allowance for losses on loans (note 7)					2,700					2,324
Deferred loan revenue					272					248
Net Loans Receivable					$17,886					$14,844

** Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 2000, the floating rate performing gross loans receivable are yielding 8.36% (1999 – 7.52%) with an average term to reset of 94 days (1999 – 108 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	2000					1999				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	3,290	8.44	3,025	1.27	6,315	3,256	8.45	3,027	1.23	6,283
Commercial	5,639	7.36	8,746	1.60	14,385	4,165	7.45	6,842	1.75	11,007
Total	$8,929	7.68	$11,771	1.49	$20,700	$7,421	7.81	$9,869	1.58	$17,290

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	2000	1999
Balance at beginning of year	$1,182	$1,255
Capitalized interest	22	68
Amortization	(77)	(69)
Cash receipts	5	(2)
Foreign exchange	33	(70)
Balance at end of year	$1,165	$1,182

6. Impaired Loans Receivable

The Corporation has $1,323 million impaired gross loans receivable (1999 – $1,308 million), of which $1,166 million is sovereign (1999 – $1,060 million) and $157 million is commercial (1999 – $248 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	2000	1999
Balance at beginning of year	1,308	1,929
Loans classified as impaired	95	161
Loans reinstated to performing	–	(647)
Loans written off	(105)	–
Capitalized interest	23	39
Principal repayments	(42)	(15)
Receipts from the Government of Canada for sovereign debt relief	(12)	(59)
Foreign exchange	56	(100)
Balance at end of year	$1,323	$1,308

The $105 million (1999 – nil) of loans written off consists of six commercial loans to borrowers in South Korea, France, Zambia, Liberia, Canada and Russia. These loans were written off after all collection methods had been exhausted and no further prospect of recovery was likely. All loans were written off against the allowance for loan losses and did not affect net income for the year.

The largest concentrations of gross loans receivable for impaired loans are listed in the following table.

($ in millions)	2000			1999			
	Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	411	262	149	Cameroon	379	234	145
Ivory Coast	249	172	77	Ivory Coast	235	169	66
Russia	119	47	72	Russia	117	46	71
Congo	54	41	13	Congo	52	40	12
Gabon	52	25	27	Gabon	50	25	25
Other	281	63	218	Other	227	53	174
Subtotal	1,166	610	556		1,060	567	493
Commercial	157	6	151		248	6	242
Total Impaired	1,323	616	707		$1,308	$573	$735
Less: Specific allowance (note 7)			431				402
Net Impaired Loans Receivable			$276				$333

During 2000, payments of principal and interest from borrowers for impaired loans were $52 million (1999 – $33 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)	2000			1999		
	Commercial	Sovereign	Total	Commercial	Sovereign	Total
Specific allowance for impaired loans	138	293	431	211	191	402
General allowance	1,628	641	2,269	1,267	655	1,922
Total	$1,766	$934	$2,700	$1,478	$846	$2,324

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows, which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined in the following chart, represent $5,100 million or 26% of the Corporation's performing loans receivable.

($ in millions)	2000		1999		
Country	Performing Gross Loans Receivable	% of Performing Loans	Country	Performing Gross Loans Receivable	% of Performing Loans
Mexico	1,029	5	Indonesia	896	5
Indonesia	939	5	Peru	741	4
Peru	832	4	Brazil	738	4
Brazil	790	4	Mexico	713	4
Venezuela	593	3	Venezuela	609	4
Algeria	544	3	Algeria	527	3
Argentina	373	2	Colombia	451	3
Total	$5,100	26	Total	$4,675	27

In addition, the Corporation has a single counterparty loan receivable of $1,433 million (1999 – $1,151 million) with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)	2000			1999		
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	402	1,922	2,324	421	1,639	2,060
Portfolio growth	–	246	246	(4)	290	286
Credit migration	–	25	25	–	90	90
Net increase in impairment	110	–	110	21	–	21
Write-offs*	(105)	–	(105)	–	–	–
Foreign exchange	24	76	100	(36)	(97)	(133)
Balance at end of year	$431	$2,269	$2,700	$402	$1,922	$2,324

** See note 6 for more information on the loan write-offs.*

▶ 8. Loan Commitments

The Corporation has undisbursed commitments of $4,825 million (1999 – $5,345 million). Over the next two years, management estimates that the Corporation will disburse 67% of the remaining undisbursed commitments.

The projected disbursement of the loan commitments is as follows:

($ in millions)	2000		1999	
Year	Projected Disbursements	%	Projected Disbursements	%
2000	–	–	2,798	52
2001	2,776	58	706	13
2002	451	9	348	7
2003 and beyond	1,598	33	1,493	28
Total	$4,825	100	$5,345	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	2000				1999			
	Fixed $	Spot Yield %	Floating $	Spread %	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	1,539	8.31	258	2.93	1,891	8.35	215	2.72
Commercial	65	6.45	2,963	2.26	71	6.83	3,168	1.83
Total	$1,604	8.24	$3,221	2.32	$1,962	8.29	$3,383	1.88

▶ 9. Contingent Liabilities

The Corporation's contingent liabilities include both short-term and medium-term insurance policies and guarantees. The short-term program protects exporters of goods and services trading on credit terms of up to a year against non-payment due to commercial and political risks. Commercial risks covered include buyer insolvency, default, repudiation of goods by buyer and contract cancellation. Political risks covered by EDC are conversion and risk transfer, cancellation of export or import permits, or war-related risks. The medium-term program provides cover for sales on credit terms greater than

one year and includes export credits insurance and guarantees, loan guarantees, performance insurance extending cover for risks inherent in performance and bid guarantees, and political risk insurance, which provides political risk protection for equity and other investments abroad.

As at December 31, 2000, the Corporation has insurance policies and guarantees outstanding of $14,402 million (1999 – $12,721 million), which mature as follows:

($ in millions)	2000	1999
Short-term program	7,405	7,147
Medium-term program		
2000	–	1,058
2001	1,394	963
2002	1,119	299
2003	2,441	1,721
2004	457	283
2005	525	420
2006–2010	538	542
2011 and beyond	523	288
Total	$14,402	$12,721

The major concentrations by location of ultimate risk are as follows:

($ in millions)	2000			1999			
	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	3,210	1,589	4,799	U.S.	2,821	1,367	4,188
Canada	856	1,884	2,740	Canada	1,036	1,102	2,138
Brazil	362	305	667	Brazil	419	281	700
Mexico	202	246	448	China	217	174	391
Turkey	195	155	350	U.K.	141	182	323
Other	2,580	2,818	5,398	Other	2,513	2,468	4,981
Total	$7,405	$6,997	$14,402	Total	$7,147	$5,574	$12,721

Reinsurance of $977 million (1999 – $520 million) has been deducted from the insurance policies outstanding.

Reinsurance premiums of $12 million were deducted from total premiums earned for the year ended December 31, 2000 (1999 – $5 million).

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	2000	1999
Balance at beginning of year	77	44
Claims paid	84	134
Claims recovered	(30)	(17)
Re-evaluation of recoverable claims	(62)	(82)
Foreign exchange	5	(2)
Balance at end of year	$74	$77

Of the $84 million in claim payments made during 2000, 93% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)	2000		1999		
	Claims Paid	Claims Recovered		Claims Paid	Claims Recovered
U.S.	28	9	U.S.	34	7
Ecuador	14	–	Russia	27	–
India	9	–	Hong Kong	18	–
Canada	8	1	China	10	–
Mexico	3	1	Brazil	6	1
Other	22	19	Other	39	9
Total	$84	$30	Total	$134	$17

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	2000	1999
Balance at beginning of year	454	436
Provision for claims on insurance	158	133
Provision for loan guarantees	10	(7)
Re-evaluation of recoverable claims	(62)	(82)
Claims expense	(6)	(3)
Foreign exchange	15	(23)
Balance at end of year	$569	$454

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	2000	1999
Provision for losses on loans	381	397
Provision for claims on insurance	158	133
Provision for loan guarantees	10	(7)
Provision for Credit Losses	$549	$523

12. Debt Instruments

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC uses currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally used to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable are comprised as follows:

($ in millions)	2000	1999
Short-term payables	3,270	3,782
Long-term payables		
– due within current year	3,273	2,992
– over one year	11,040	9,531
Total long-term payables	14,313	12,523
Subtotal	17,583	16,305
Plus: unamortized discounts and premiums	(5)	5
deferrals	5	15
Total Loans Payable	$17,583	$16,325

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised as follows:

($ in millions)	2000	1999
Short-term	32	54
Long-term	422	644
Total Accrued Interest Payable	$454	$698

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	**2000**	1999
Callable/extendible	**1,982**	1,446
Inverse floating rate note	**730**	–
Equity index	**596**	788
Dual currency	**543**	984
Barrier	**–**	240
Other	**250**	180
Total	**$4,101**	$3,638

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in note 16.

▶ 13. Debt Instrument Maturities

The following table shows how EDC has used derivative financial instruments to manage interest rate exposure on debt instruments.

($ in millions)							**2000**		1999
Year of Maturity	Debt Issues	Derivatives Hedging Specific Debt Issues	Net	Yield* (%)	Derivatives Not Hedging Specific Debt Issues	Net	Yield* (%)	Net	Yield* (%)
Fixed Rate Issues									
2000	–	–	–	–	–	–	–	289	8.63
2001	2,033	(1,583)	450	6.25	15	465	6.28	433	6.25
2002	2,296	(1,396)	900	6.88	15	915	6.91	866	6.40
2003	1,933	(1,029)	904	6.47	15	919	6.49	870	6.81
2004	1,482	(1,055)	427	6.75	15	442	6.79	–	–
2005	241	(241)	–	–	465	465	6.69	–	–
2006–2010	3,282	(3,045)	237	8.60	76	313	8.51	228	8.60
2011 and beyond	109	(79)	30	8.25	60	90	8.20	29	8.25
Subtotal	11,376	(8,428)	2,948	7.25	661	3,609	7.25	2,715	7.49
Floating Rate Issues									
2000	–	–	–		–	–		6,351	
2001	4,510	1,670	6,180		(15)	6,165		1,169	
2002	772	1,420	2,192		(13)	2,179		1,077	
2003	177	1,040	1,217		(15)	1,202		366	
2004	159	1,106	1,265		(15)	1,250		1,604	
2005	41	245	286		(465)	(179)		198	
2006–2010	535	3,057	3,592		(77)	3,515		2,327	
2011 and beyond	13	82	95		(61)	34		219	
Subtotal	6,207	8,620	14,827	6.44	(661)	14,166	4.70	13,311	5.63
Total	$17,583	$192	$17,775		–	$17,775		$16,026	

* *Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

▶ 14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1999 – 9.8 million). No shares were issued in 2000 (1999 – nil).

▶ 15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)	2000								1999	
	Assets			Liabilities			Net Foreign Currency		Net Foreign Currency	
	Gross	DFI*	Net	Gross	DFI*	Net	Exposure	Rate	Exposure	Rate
U.S. Dollars	16,864	365	17,229	(9,564)	(7,753)	(17,317)	(88)	1.5002	(17)	1.4433
Euro	442	(15)	427	(879)	455	(424)	3	1.4092	1	1.4525
British Pounds	842	(11)	831	(69)	(762)	(831)	–	2.2432	2	2.3314
Japanese Yen	35	(35)	–	(502)	502	–	–	0.0131	–	0.0141
New Zealand Dollars	–	–	–	(166)	166	–	–	0.6641	–	0.7547
Australian Dollars	8	(8)	–	(87)	87	–	–	0.8349	–	0.9482
Hong Kong Dollars	–	–	–	(78)	78	–	–	0.1924	–	0.1857
South African Rand	–	–	–	(11)	11	–	–	0.1984	–	0.2347
Swedish Krona	9	–	9	–	(9)	(9)	–	0.1587	–	0.1697
Norwegian Krone	5	–	5	–	(5)	(5)	–	0.1705	–	0.1801

* *"Derivative Financial Instruments" include currency swaps and foreign exchange contracts. See note 16.*

The Corporation experienced a foreign exchange gain of $1 million in 2000 (1999 – loss of $12 million). This amount is included in interest expense. Throughout the year, EDC's assets and liabilities were denominated mainly in U.S. dollars, Euros and British pounds.

▶ 16. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not use derivatives for speculative purposes. It uses a variety of these instruments to manage funding costs and investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts that grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon, causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA- for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) using limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1999 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31 are listed below.

($ in millions)					**2000**	1999
	Remaining Term to Maturity					
	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Total
Currency swaps	1,662	1,555	1,227	3,690	8,134	7,630
Interest rate swaps	1,002	1,819	750	120	3,691	3,124
Foreign exchange contracts	2,786	–	–	–	2,786	3,153
Total derivative financial instruments	$5,450	$3,374	$1,977	$3,810	$14,611	$13,907
Fair Value of Derivative Financial Instruments						
Positive	47	95	47	87	276	706
Negative	(151)	(42)	(76)	(107)	(376)	(254)

Swaps that have a positive fair value are those contracts that, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined as follows do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented as follows does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	2000		1999	
Balance Sheet Financial Instruments	Book Value	Fair Value	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	534	536	495	495
Floating rate securities	1,671	1,671	2,756	2,756
Investments	170	174	168	155
Loans receivable:				
Performing fixed rate	8,296	8,716	6,912	7,362
Performing floating rate	9,930	10,767	8,138	9,475
Impaired	276	276	333	333
Total	$20,877	$22,140	$18,802	$20,576
Accounts payable	84	84	92	92
Loans payable:				
Fixed rate	11,637	11,669	11,189	11,274
Floating rate	6,400	6,400	5,814	5,814
Total	$18,121	18,153	$17,095	$17,180

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of deferrals that do not have a fair value.

($ in millions)	2000	1999
Off-Balance Sheet Financial Instruments	Fair Value	Fair Value
Currency swap contracts	(57)	351
Interest rate swap contracts	18	21
Foreign exchange contracts	(61)	80
Undisbursed loan commitments:		
Fixed rate	103	67
Floating rate	(64)	(68)

The fair values of marketable securities and investments are estimated using observable market prices. If such prices are not available, a valuation technique is used that is consistent with accepted economic pricing methodologies.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments is based on a discounted cash flow approach with current market rates. Floating rate loans payable and investments reprice frequently; therefore, the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at the end of the year. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at the end of the year as issued by Reuters and Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada pays the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 2000, the Corporation received from the Government of Canada $12 million (1999 – $59 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $844 million and undisbursed commitments of $653 million, for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

19. Employee Benefits

Effective April 24, 2000, the Corporation established a pension plan for its employees. The plan is a defined benefit plan, providing benefits to retirees based on years of service and the final five years' average salary of the employees. All permanent employees of EDC are members of the pension plan; however, employee contributions to the plan are optional.

Employees had until January 4, 2001, to elect to transfer pension benefits accrued to April 23, 2000, to the new pension plan or leave them with the Public Service Superannuation Fund until retirement. The Government of Canada will transfer funds during 2001 to the Corporation's pension plan to fund the pension liabilities that are transferred. Consequently, the pension assets and the projected benefit obligation do not reflect any assets or liabilities in respect of credited service before April 24, 2000.

The following presents the financial position of EDC's pension plan at December 31, 2000.

	Pension Benefits Plan	
($ in thousands)	Registered Plan	Supplementary Plan
Projected Benefit Obligation:		
Obligation at beginning of year	–	–
Benefits earned during the year	5,442	986
Interest cost on benefit obligation	270	49
Benefits paid	(57)	(1)
Projected obligation at end of year	5,655	1,034
Fair Value of Plan Assets:		
Fair value at beginning of year	–	–
Actual return on plan assets	112	–
Employer contributions	3,807	582
Employee contributions	1,624	3
Benefits paid	(57)	(1)
Fair value at end of year	5,486	584
Funded status – plan deficit	(169)	(450)
Unamortized net actuarial loss	35	8
Accrued Benefit Liability	(134)	(442)

Net Pension Plan Expense:

($ in thousands)	Pension Benefits Plan Registered Plan	Pension Benefits Plan Supplementary Plan
Benefits earned during the year (net of employee contributions)	3,818	983
Interest cost on benefit obligation	270	49
Expected return on plan assets	(147)	(8)
Total	$3,941	$1,024

As at December 31, 2000, 100% of the pension plan assets were invested in a fixed income fund.

Other Benefits Plan

The Corporation maintains a retiring allowance program and provides certain life insurance, health and dental care benefits to retired employees. These benefit plans are unfunded, and the Corporation's projected obligation related to these benefits at December 31, 2000, is $22.5 million, up from $20 million at December 31, 1999. Contributing to this increase were the benefits earned during 2000 of $1.6 million and the interest costs on the accrued benefit obligation of $1.5 million. There was an actuarial gain arising in 2000 of $110,000. The benefits paid during the year totalled $607,000. Adoption of the CICA's new standard for recording employee benefits has resulted in a transitional obligation of $10.2 million (representing the difference between what the Corporation had previously accrued and the actuarially determined initial obligation), which is being amortized against income. The current year's expense is $3.8 million, which includes amortization of the transitional obligation of $604,000.

Assumptions

The discount rate used for the projected benefit obligation is 7.25%. The average rate of general salary increase is expected to be inflation (assumed to be 3%) plus a 1% productivity gain plus an adjustment for merit. The expected long-term rate of return on plan assets is 8%, and the initial annual rate of increase for covered health care benefits is assumed to be 8%.

▶ 20. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account." The Board of Directors is responsible only for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,644 million at December 31, 2000 (1999 – $2,749 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $4,921 million (1999 – $5,133 million). Reinsurance of $37 million has been deducted from the insurance policies in force.

The Corporation retained $28 million (1999 – $25 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

▶ 21. Reclassification of Comparative Figures

Certain 1999 comparative figures have been reclassified to conform to the presentation adopted in 2000.

Five-Year Review

BALANCE SHEETS

as at December 31

($ in millions)	**2000**	1999	1998	1997	1996
Gross loans receivable	**22,023**	18,598	16,524	12,373	10,504
Less: non-accrued capitalized interest	**1,165**	1,182	1,255	1,082	998
Less: allowance for losses on loans	**2,700**	2,324	2,060	1,628	1,423
Less: deferred loan revenue	**272**	248	220	207	160
Net loans receivable	**17,886**	14,844	12,989	9,456	7,923
Cash and investments*	**2,357**	3,417	1,730	1,927	1,444
Accrued interest and other assets*	**747**	1,253	761	262	214
Total assets	**$20,990**	$19,514	$15,480	$11,645	$9,581
Loans payable*	**17,583**	16,325	12,636	9,556	7,735
Accrued interest and other liabilities*	**846**	937	728	208	189
Allowance for claims on insurance and guarantees	**569**	454	436	336	240
Total liabilities	**18,998**	17,716	13,800	10,100	8,164
Share capital	**983**	983	983	983	983
Retained earnings	**1,009**	815	697	562	434
Shareholder's equity	**1,992**	1,798	1,680	1,545	1,417
Total liabilities and shareholder's equity	**$20,990**	$19,514	$15,480	$11,645	$9,581

INCOME STATEMENTS

for the year ended December 31

($ in millions)	**2000**	1999	1998	1997	1996
Interest income – loans	**1,585**	1,258	1,055	782	688
Interest income – marketable securities and investments	**197**	146	126	92	99
Less: interest expense	**1,066**	796	642	481	437
Net interest income	**716**	608	539	393	350
Insurance premiums and guarantee fees	**144**	133	110	99	92
Provision for credit losses	**549**	523	433	295	270
Income after provision for credit losses	**311**	218	216	197	172
Administrative expenses	**117**	100	81	69	60
Net income	**$194**	$118	$135	$128	$112

* *Figures prior to 1999 were not restated to reflect certain reclassifications made in 1998, 1999 and 2000 as the information was not reasonably determinable.*

▸ CORPORATE ACCOUNT

Financial Arrangements Facilitated

($ in millions)	2000	1999	1998	1997	1996
Export Financing					
Direct financing	**7,657**	6,060	6,639	5,454	3,678
Export Insurance					
Short-term insurance	**30,328**	27,625	23,990	20,332	15,756
Medium-term insurance	**7,080**	5,914	3,933	2,629	2,464
Guarantees	**325**	456	189	221	132
Subtotal	**37,733**	33,995	28,112	23,182	18,352
Total	**$45,390**	$40,055	$34,751	$28,636	$22,030

Financial and Other Data

	2000	1999	1998	1997	1996
Export Financing					
Number of transactions financed	**458**	372	351	242	172
Value of total obligations on loans receivable	**22,023**	18,598	16,524	12,469	10,517
Value of undisbursed loans	**4,825**	5,345	5,813	6,482	2,863
Value of disbursements	**7,210**	6,374	5,822	3,295	2,437
Value of liability on loan guarantees	**1,795**	1,643	1,723	416	347
Undisbursed amounts on loan guarantees	**112**	123	150	145	85
Number of current lines of credit and protocols	**44**	55	52	44	50
Amounts available for allocation	**1,176**	1,659	1,320	1,356	1,570
Loan amounts rescheduled	**264**	720	237	158	464
Loan amounts written off	**105**	–	–	18	–
Export Insurance					
Number of policies issued	**3,951**	3,879	3,345	3,021	2,591
Number of insurance policies and guarantees in force	**8,264**	7,190	6,272	5,352	4,404
Value of liability on insurance and guarantees	**12,495**	10,955	9,921	8,163	7,000
Value of claims paid	**84**	134	72	43	60
Value of claims recovered/rescheduled	**30**	17	19	16	11
Value of claims outstanding at end of year	**246**	234	164	119	100
Value of claims under consideration at end of year	**36**	38	62	15	14
Average employee strength during year	**838**	778	698	650	602

CANADA ACCOUNT

Financial Arrangements Facilitated

($ in millions)	2000	1999	1998	1997	1996
Export Financing					
Direct financing	**35**	67	9	1,584	131
Export Insurance					
Short-term insurance	–	–	–	–	6
Medium-term insurance	**224**	247	497	283	299
Guarantees	–	–	12	34	–
Subtotal	**224**	247	509	317	305
Total	**$259**	$314	$518	$1,901	$436

Financial and Other Data

	2000	1999	1998	1997	1996
Export Financing					
Number of transactions financed	**9**	12	5	7	29
Value of total obligations on loans receivable	**2,490**	2,599	2,904	2,799	2,753
Value of undisbursed loans	**192**	183	194	309	373
Value of disbursements	**76**	66	100	112	171
Number of current lines of credit and protocols	**3**	2	2	1	1
Amounts available for allocation	**73**	73	87	20	20
Loan amounts rescheduled	**3**	45	45	136	9
Export Insurance					
Number of policies issued	**1**	4	12	12	7
Number of insurance policies and guarantees in force	**5**	20	25	23	22
Value of liability on insurance and guarantees	**170**	199	299	241	456
Value of claims paid	–	8	4	6	–
Value of claims recovered	–	–	7	–	4
Value of claims outstanding at end of year	**46**	46	38	41	34

Board of Directors

Members of the Board of Directors as at December 31, 2000

Ms. Dorothy E. Byrne, Q.C.
President, Eagle Island Consulting Corp.
Corporate Secretary,
Vancouver Whistler 2010 Bid Corporation
West Vancouver, British Columbia

Mr. Rayburn D. Doucett
President
Crosswaters Trade Brokers Limited
Belledune, New Brunswick

Mr. Robert A. Fung
Senior Partner
Capital West Partners
Toronto, Ontario

Mr. A. Ian Gillespie
President and Chief Executive Officer
Export Development Corporation
Ottawa, Ontario

Mr. Robert J. Holt
President
Applied Common Sense Solutions Inc.
Saltspring Island, British Columbia

Mr. Patrick J. Lavelle
Chairman of the Board
Export Development Corporation
Toronto, Ontario

Mr. Pierre MacDonald
President and Chief Executive Officer
MacD Consult Inc.
Verdun, Quebec

Mr. James A. Pattillo
President
Advance Film Group
Calgary, Alberta

Ms. Dominique Vachon
Vice-President and Chief Economist
Strategy Markets and Clients
National Bank of Canada
Montreal, Quebec

Ms. Grace S. White
President and Chief Executive Officer
CanJam Trading Ltd.
Dartmouth, Nova Scotia

Mr. Robert G. Wright
Deputy Minister for International Trade
Ottawa, Ontario

4 Vacancies

Corporate Governance Practices

EDC's Board of Directors (the "Board") recognizes the importance of good corporate governance practices in Crown corporations and believes that, to remain effective and fully accountable, self-assessment and critical review of its activities should be accomplished regularly.

Following that direction, the Board took the opportunity in 2000 to review and evaluate its actions with respect to corporate governance, and to assess its compliance with the Guidelines as set out in the Treasury Board's publication entitled *Corporate Governance in Crown Corporations and Other Public Enterprises* (the "Treasury Board Guidelines") and the appropriate trade-off of public policy and commercial objectives.

With the concern of effectively accomplishing their overseeing role of direction and management of the Corporation, the members of the Board completed, in January 2000, a very extensive evaluation questionnaire (the "2000 Survey") through which they could express their views on the effectiveness of the Board and its committees. In order to ensure confidential and objective results, an independent party, the Conference Board of Canada (the "Conference Board"), prepared the 2000 Survey and each director completed it during a face-to-face or telephone interview by the Conference Board.

Upon completion of the project in February 2000, Conference Board personnel gave the Board an overview of the results of the 2000 Survey, which were positive overall. In May 2000, at the request of the Corporate Governance Committee, a more in-depth presentation on the results was given by Conference Board personnel to the members of that Committee, and an action plan addressing key issues was agreed upon. Each of the key issues was then assigned to the appropriate Committee of the Board, with an obligation to report its progress to the Board in due course.

The 2000 Survey, combined with the other initiatives undertaken in 2000 or continued from 1999, confirmed once again that the Board, with the help of its seven committees, was complying with virtually all of the Treasury Board Guidelines. Where areas requiring attention were identified, appropriate action was taken. To efficiently assume the stewardship of the Corporation and ensure that the Corporation's mandate is fulfilled, a total of 44 meetings of the Board and its committees were held in 2000. A more in-depth analysis of the Corporation's compliance with the Treasury Board Guidelines is set forth below:

Board Stewardship

The most important responsibility to be fulfilled by the Board, the stewardship of the Corporation, was addressed in 2000 as follows:

Strategic Direction: The 2000 Survey revealed that EDC has a strong vision/mission, and resources are properly and efficiently assigned to achieve it. In assuming its responsibility and ensuring the accomplishment of the Corporation's mission, EDC's Board closely examined with management the strategic direction of the Corporation, held a meeting exclusively dedicated to such examination, and in October approved the 2001–2005 Corporate Plan. As part of this Corporate Plan, among other things and with the view to enable EDC to meet its corporate objectives, important e-commerce strategies were approved by the Board, including significant investments in key technology initiatives.

Identifying and Managing Risks: Early in 2000, the Risk Management Committee of the Board of Directors approved a plan directed towards the achievement by the end of 2004 of EDC's goal of developing and implementing a comprehensive Enterprise Risk Management ("ERM") framework, together with all supporting policies and processes for managing credit, market and operational risks. In this regard, the Committee also agreed on the key development areas to be pursued in 2000 under the Credit Risk Management Framework approved in December 1999 as the foundation for ERM at EDC, and at the end of the year noted the achievement of these objectives.

EDC has a strong vision/mission, and resources are properly and efficiently assigned to achieve it.

During the year, the Risk Management Committee received an evaluation, conducted by an independent expert in the field, of EDC's market risk management policies measured against best-in-class practices in both private sector and public sector financial institutions, which evaluation indicated that EDC's policies and governance framework did represent best-in-class practices in this area. As part of the evolution towards ERM, the Risk Management Committee and the Audit Committee agreed that the market risk management function should be integrated in the Risk Management Office of the Corporation rather than in the Treasury department, and also agreed to a parallel transfer of oversight responsibility for this function from the Audit Committee to the Risk Management Committee. After intensive work by the Audit and Risk Management Committees, along with the Corporate Governance Committee, the Board in December approved revised Terms of Reference for the Audit Committee and Risk Management Committee to reflect the transfer of oversight responsibility for market risk from the Audit Committee to the Risk Management Committee.

Succession Planning: Recognizing that, pursuant to both Treasury Board Guidelines and the Board's own assessment in the 2000 Survey, succession planning is an important responsibility of the Board so as to ensure that skilled management will be available for the ongoing and longer-term fulfillment of EDC's mandate, the Human Resources Committee satisfied itself that an appropriate leadership development program for managers had been implemented within the Corporation. This program will ensure the identification and staffing of critical leadership positions, examine the ongoing relevance of EDC's structure to its strategic imperatives, and begin to assess EDC's current talent against future requirements. This year again, the Human Resources Committee noted several key managerial positions filled.

Public Policy Objectives: As part of the legislative review, the *Report of the Review of the Export Development Act* highlighted the need for EDC to clarify its public policy mandate and a need to balance the protection of exporters' interests with the response to stakeholder concerns. The Board, in conjunction with management, multiplied its efforts to respond to these findings of the report by implementing a corporate social responsibility ("CSR") framework designed to ensure that EDC conducts its activities in a socially responsible manner, and to preserve its strong reputation for CSR. The year 2000 was pivotal for the Board in connection with the monitoring of CSR initiatives. These initiatives, summarized as follows, were reported in a recently released brochure entitled *Doing the Right Thing – Corporate Social Responsibility at EDC.*

An important initiative was the development of a new disclosure policy, to be finalized in 2001, in consultation with stakeholders over the course of the year. That policy will enable more information on EDC's business activities to be disclosed to the public, while ensuring customers' commercial confidentiality. Following on another major CSR initiative, the implementation in 1999 of the Environmental Review Framework ("ERF"), procedures were implemented and applied to ensure that environmental risks associated with proposed transactions were assessed in accordance with the ERF as part of the transaction approval process. Work commenced towards a review and audit by the Auditor General of Canada of the ERF to be completed in 2001. Finally, the Education and Youth Employment ("EYE") Strategy, promoting international business knowledge and trade-related career opportunities to students across Canada, was enhanced in 2000.

The first need identified, the streamlining of information, was met through the regular reports developed and presented to the Board pursuant to the Credit Risk Policy Manual and the Market Risk Management Policy, and by establishing a secure electronic data bank where all relevant information for meetings will be posted and may be accessed by directors at their convenience. The reporting of non-financial performance indicators was addressed through the implementation of the CSR framework.

Work commenced towards a review and audit by the Auditor General of Canada of the ERF to be completed in 2001.

Board Requirements: While the Board was satisfied with the systems in place for reporting the information and those for internal control, and while the directors expressed their high level of confidence in the integrity of the information produced by those systems, the 2000 Survey highlighted a need to streamline the information provided to the Board and to develop and report on significant non-financial performance indicators.

Communications and Marketing: With the support and guidance of the Business Development Committee of the Board, the Corporation invested during the year in a strong program for raising the level of awareness of EDC and its activities with a view to creating a greater demand for EDC's products. This program produced positive results in terms of triggering inquiries in response and favourable corporate image ratings. At a meeting held in early January 2001, the Business Development Committee expressed its satisfaction with what had been accomplished during 2000, including the overall positive results of the 2000 media program, and reinforced its support and desire to continue developing EDC's corporate image.

Functioning of the Board

In this area again, the 2000 Survey contributed to ensure EDC's compliance with the Treasury Board Guidelines, and provided the members of the Board with an opportunity to self-assess and evaluate their performance. The Board was assisted by a strong committee framework, both the overall structure and membership of which were reviewed and confirmed during the year.

Furthermore, reinforcing the importance of the Board's independence of function, in-camera sessions continued to be held prior to each meeting of the Board and prior to some of the committee meetings in 2000. As was the case last year, three of the seven committees consisted entirely of outside and independent directors.

Lastly, building on the Profile of the Ideal Private Sector Director for EDC created and approved by the Board in 1999, an inventory of the skills profile of the Board members was completed in 2000, outlining the industry knowledge and functional skills of the actual Board members and identifying areas for ongoing development.

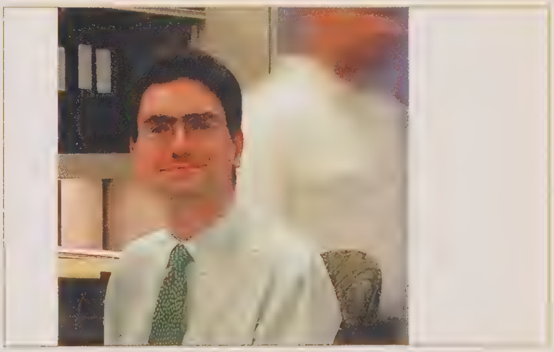
The sustained efforts of EDC's Board to evolve its corporate governance practices to comply with the Treasury Board Guidelines will certainly constitute an ongoing focus for the next year. In 2001, another survey will be conducted by the Conference Board, which this time will focus on the progress made since the 2000 Survey.

The members of EDC's Board are aware that, to achieve best-in-class corporate governance practices, they must maintain their ongoing efforts.

Working with Management

The year 2000 marked the implementation of the new Delegation of Authority by the Board to management as part of the Credit Risk Management framework approved at the end of 1999. The new structure was instrumental in shifting the focus of the Board from transactions to monitoring portfolio exposure to broad categories of risks, and facilitating examination of broader issues of setting corporate direction and objectives and measuring the results against these benchmarks. The next step, work in respect of which is under way, is the evolution towards formal terms of reference for the Chairman of the Board, the President and the Board itself.

Lastly, as part of the compensation regime of the Corporation, the Human Resources Committee of the Board approved a set of corporate objectives against which the performance of the President for the year will be assessed.



Committees of the Board of Directors

The Audit Committee assists the Board in fulfilling its responsibilities in relation to: financial reporting and performance measurement; financial and management control systems and practices; the safeguarding of assets of the Corporation and the management of its resources; corporate financing; internal and external audits; EDC's *Code of Business Ethics* and *Code of Conduct;* and its Environmental Review Framework. Areas of particular focus in 2000 included the review of proposed significant investments in technology projects. In 2000, the Committee held six meetings.

Members: J.A. Pattillo (Chair), R.A. Fung, R.J. Holt and G.S. White.

The Business Development Committee assists the Board by providing policy direction to enhance EDC's ability to meet the evolving needs of the market, taking into account factors related to industrial sector or regional economy. Areas of particular focus in 2000 included: consideration of recommendations arising from the Report on the Review of the *Export Development Act* and monitoring of the legislative review process, in particular as they relate to CSR; awareness and brand recognition of EDC among stakeholders; development and implementation of an Education and Youth Employment Strategy; and work towards the development of an E-Commerce Strategy. In 2000, the Committee held five meetings.

Members: R.D. Doucett (Chair), D.E. Byrne, R.A. Fung, P. MacDonald and G.S. White.

The Corporate Governance Committee is responsible for, and makes recommendations to the Board on, matters relating to EDC's corporate governance regime, including the development and implementation of methods to ensure good Board performance; and the determination of the structure, responsibility and composition of the various committees of the Board. Areas of particular focus in 2000 included the monitoring of a directors' survey, conducted by an independent third party, which included an evaluation of the skills profiles of directors; an ongoing review of EDC's corporate governance practices compared with Treasury Board Guidelines; and revised terms of reference for the Audit and the Risk Management Committees. In 2000, the Committee held three meetings.

Members: P.J. Lavelle (Chair), D.E. Byrne, R.D. Doucett, J.A. Pattillo and D. Vachon.

The Executive Committee has the authority to exercise all the powers of the Board with the exception of: declaring dividends; approving any corporate plan, budget, financial statements or report required by any statute or under EDC's by-laws; and making, amending or repealing EDC's by-laws. This Committee is intended to meet to handle only those urgent matters that may arise between meetings of the Board. In 2000, the Committee held four meetings.

Members: P.J. Lavelle (Chair), A.I. Gillespie, P. MacDonald, J.A. Pattillo and R.G. Wright.

The Human Resources Committee assists the Board by: reviewing and making recommendations to the Board on EDC's Human Resources strategic plan, succession plans for executive officers, and EDC's compensation policy; approving, on the recommendation of the President, the annual budget for both base pay and variable pay, and the annual cash compensation paid to senior executives;

and working with the Pension Committee in making recommendations to the Board regarding the design of the pension plan for EDC employees, and any changes to pension benefits that may be made after the establishment of the plan. Areas of particular focus in 2000 included: a review of the President's performance against objectives; succession planning for senior management positions; work towards and implementation of the EDC pension plan; and approval of EDC's compensation plan for 2001. In 2000, the Committee held seven meetings, and one joint meeting with the Pension Committee.

Members: R.J. Holt (Chair), A.I. Gillespie, P.J. Lavelle, P. MacDonald and R.G. Wright.

The Pension Committee had an initial mandate of assisting the Board in establishing the pension plan for EDC employees, and has ongoing responsibilities with regard to the administration of the plan, including ensuring the plan is administered and funded in accordance with applicable legislation, required documents are filed with appropriate authorities, and all activities of the plan are monitored on an ongoing basis, as well as working with the Human Resources Committee in making recommendations to the Board on any changes to the design of and benefits under the plan. Areas of particular focus in 2000 included: finalization and approval of the design, texts, funding mechanisms and fund management structures of both the registered pension plan and related retirement compensation arrangement; ensuring that registrations with appropriate authorities were made in accordance with applicable legislation; and the approval of the selection and engagement of service providers. In 2000, the Committee held five meetings and one joint meeting with the Human Resources Committee.

Members: D.E. Byrne (Chair), A.I. Gillespie, R.J. Holt and P.J. Lavelle.

The Risk Management Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of the financial and other enterprise risks, including direct and contingent credit exposures undertaken by the Corporation in the conduct of its business activities, including establishing and updating, as required, an effective and flexible regime governing the authorizations required by the Corporation to undertake such activities; the risks to the Corporation's financial resources and value from exposure to changes in market risk factors such as interest rates, foreign exchange rates and equity indices; and availability of liquid diversified financial resources to call upon in the event that market conditions do not permit access to funding. In 2000, the Committee held five meetings, and amended its terms of reference to reflect the assumption of the oversight responsibility for market risk from the Audit Committee and other activities in connection with the implementation of a comprehensive framework for Enterprise Risk Management.

Members: P. MacDonald (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle and J.A. Pattillo.

All committees are required to report to the Board of Directors on their activities on a regular and timely basis.

The remuneration of directors falls under the authority of the Governor General in Council. The Chairman of the Board is paid an annual fee of $6,500 and a per diem of $375, and the other private sector directors are paid an annual fee of $4,500 and a per diem of $375. In addition, private sector directors, other than the Chairman of the Board, receive annual fees of $1,000 when they hold office as Vice-Chairman of the Board or Chair of a committee of the Board. Public service directors are not paid for their services as directors.

The total aggregate remuneration paid in 2000 to EDC's private sector directors was approximately $187,000 compared with $212,000 in 1999. They served, on average, on three committees of the Board, and attended a total of 44 Board and committee meetings in 2000 while, for the previous year, they attended a total of 48 Board and committee meetings. The total costs incurred by the Board, including business travel and promotion as well as meeting expenses, were $225,715 for 2000 compared with $266,346 for 1999.

Code of Business Ethics

Commitment to legal and ethical conduct

EDC will conduct its business and affairs in accordance with the letter and spirit of all applicable laws in the countries in which it does business. If any EDC employee or representative is ever uncertain as to the interpretation or application of a particular law, he or she must seek advice from Legal Services before taking action. Compliance with the law may, however, fall short of the standard of ethical conduct expected by EDC.

Accordingly, it is EDC's policy that each of its directors, employees and representatives conduct EDC's business with honesty, integrity and fairness. It is also corporate policy that communication and relationships with stakeholders be truthful and transparent in a way that will withstand the highest degree of public scrutiny. Working relationships will be based on candor and openness, treating each other fairly and with respect, while acting with integrity, and weighing responsibilities to all stakeholders.

The environment

In considering transactions, EDC examines environmental risk along with any other risk. EDC has developed its own environmental assessment framework in consultation with Canadian exporters, environmental organizations and other stakeholders. This framework will support EDC's desire to conserve and enhance environmental quality and to advocate concern for the environmental impact of projects it supports in foreign jurisdictions. EDC will encourage best practices among those with whom it does business, with the aim of raising international environmental standards. EDC will strive for high standards of environmental conservation while ensuring that this does not unduly hinder EDC's ability to support Canadian exporters to compete on a global scale.

Prohibitions against bribery and corruption

Basic criminal statutes of virtually all countries prohibit extortion and bribery. Under no circumstances will EDC, directly or indirectly, knowingly offer or give a bribe. Further, EDC will not support a transaction that involves the offer or giving of a bribe, and will exercise reasonable diligence and care not to support unknowingly such a transaction.

Human rights

EDC values human rights and promotes the protection of internationally recognized human rights, consistent with the policies of the Government of Canada. EDC recognizes the sovereignty of other national governments with respect to human rights and conducts business with them where doing so is consistent with the policies of the Government of Canada.

EDC employees, representatives and other stakeholders are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. EDC is therefore committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds. These prohibited grounds include age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, pregnancy, sexual orientation and disability.

Avoiding conflicts of interest

Employees and representatives of EDC have a duty to act in the best interests of EDC at all times. A conflict of interest arises when an employee must choose between EDC's best interests and his/her own. The judgment of EDC employees and representatives must be, and must be seen to be, independent of any personal or financial interests that arise from business dealings, social ties, or other personal considerations.

EDC has adopted a *Code of Conduct* that requires employees and representatives of EDC to adhere to the highest standards of conduct with respect to conflicts of interest. Compliance with these standards is achieved through avoidance, disclosure, discontinuance or divestment.

Gilles Ross
Senior Vice-President, Legal Services, and Secretary

Maintaining confidentiality of information

EDC will respect the privacy rights of its stakeholders, including their right to security of information. EDC will preserve confidential information in its possession, and use such information only for corporate purposes.

Some employees have access to sensitive or confidential information that, if released, could significantly harm EDC, its employees or other stakeholders. Therefore, employees and other representatives of EDC must use extreme care when handling such information. As a general rule, such information shall not be provided to EDC employees or representatives other than on a need-to-know basis or to anyone outside EDC who is not authorized or legally entitled to receive it.

Glossary of Financial Terms

Actuarial Gains and Losses – Changes in the value of the accrued benefit obligation and the plan assets resulting from actual results differing from those assumed or changes in an actuarial assumption.

Actuarial Valuation (re: Employee Benefits Plan) – An assessment of the financial status of a benefit plan performed by an independent actuary. It includes the valuation of any plan assets and the accrued benefit obligation using estimates of future events that will affect the costs and obligation for employee future benefits.

Basis Point – One one-hundredth of a percentage point.

Contingent Liability – Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Credit Risk – Credit risk is the possibility that a loss may be incurred if a counterparty fails to meet its financial commitments.

Efficiency Ratio – Administrative expenses expressed as a percentage of operating income.

Financial Sustainability Ratio – Adjusted operating income (operating income net of administrative expenses and debt relief) as a percentage of the year's average capital and allowances.

Foreign Exchange Risk – Foreign exchange risk is the possibility that a loss may result from exchange rate movements.

Gross Loans Receivable – Principal amounts outstanding, including any non-accrued capitalized interest, under existing loan agreements.

Hedge – A risk management practice used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Impaired Loan – Loans that no longer have reasonable assurance of collection of interest and principal.

Interest Rate Risk – Interest rate risk is the potential impact on the Corporation due to changes in interest rates.

LIBOR – London Inter-Bank Offered Rate – The interest rate at which banks in London are prepared to lend funds to first-class banks.

Liquidity Risk – Liquidity risk is the chance that funds will not be available to meet the Corporation's obligations.

Market Risk – Market risk is the likelihood of a loss to the Corporation as a result of possible movements in interest and foreign exchange risk.

Net Interest Income – The difference between the interest earned on assets and interest expense on borrowings.

Net Margin – Net interest income expressed as a percentage of average assets employed.

Net Operating Income – Operating income net of administrative expenses.

Off-Balance Sheet Financial Instrument – An asset or liability that is not recorded on the balance sheet, but has the potential to impact cash flows in the future if a contingent event occurs.

Operating Income – Net income excluding the provision for credit losses and administrative expenses.

Operational Risk – Operational risk is the potential loss that may result from human error, internal control weaknesses and system deficiencies.

Projected Benefit Method Pro Rated on Services – An actuarial valuation method in which an equal portion of the total estimated future benefit is attributed to each year of service.

Projected Benefit Obligation – The actuarial present value of benefits attributed to employee services rendered to a particular date.

Return on Equity – Net income expressed as a percentage of shareholder's equity.

Undisbursed Loan Commitments – A contractual amount under an existing loan agreement that has yet to be advanced to the borrower.

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Your opinion matters...

EDC strives to be accountable to the exporting community by providing an understanding of its business performance and objectives. By taking a few minutes to complete this short survey, you can help us to provide you with the information you need most.

Please return survey by fax to (613) 598-3080.
**Return by June 1st and receive an ID-ROM that contains country risk assessment information.

Does the report provide you with a clear understanding of:

EDC performance?	☐ Yes	☐ No	☐ Somewhat
Corporate social responsibility issues?	☐ Yes	☐ No	☐ Somewhat
EDC's strategic direction?	☐ Yes	☐ No	☐ Somewhat

How effective was the financial reporting?
☐ Very effective ☐ Somewhat effective ☐ Ineffective

Did charts/graphs support the information in the report and make it easier to understand?
☐ Yes ☐ No ☐ Somewhat

The level of detail contained in the report:
☐ Met my needs ☐ Exceeded my needs ☐ Did not meet my needs

On what particular subjects would you have liked to see more detail? ______

______

______

Which section of the report did you consider most useful?
☐ Corporate Account Highlights ☐ Message to the Shareholder
☐ Corporate Social Responsibility ☐ Financial Review
☐ Other ______

Why? ______

______

Is our report well written and easy to understand? ☐ Yes ☐ No ☐ Somewhat

Do you have other comments? ______

______

______

A little about you. Are you:
☐ An EDC customer? ☐ Government? ☐ A financial institution?
☐ Media? ☐ A student? ☐ Other? ______

NAME ______

ADDRESS ______

COMPANY NAME ______ TITLE ______

E-MAIL ______ PHONE ______ FAX ______

Thank you!

Our Vision and Values

Vision

EDC will be the recognized leader in providing ground-breaking commercial financial solutions to companies of all sizes, helping them succeed in the global marketplace and create enduring prosperity for Canada.

Values

People

We are the heart and soul of EDC. Our diversity enriches us all. Each one of us deserves respect and makes a difference. Working together is fundamental to our success.

Excellence

We are responsible for excellence in everything we do. We believe in personal accountability and the power of challenging the status quo.

Passion

Initiative and enthusiasm characterize the way we work. We take satisfaction in the quality of what we do. We are here because we want to be here.

Learning

We believe that learning is an invigorating and continuous process. We seek out and embrace personal and professional development, and the invaluable lessons that come from experience.

Ce document existe également en version française.

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Canada